

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
Columbia, South Carolina

HEARING #18-11711                      APRIL 4, 2018                      10:03 A.M.

DOCKET NO. 2017-292-WS:

CAROLINA WATER SERVICE, INC. – Application for Approval of an  
Increase in Its Rates for Water and Sewer Services

TRANSCRIPT OF TESTIMONY  
AND PROCEEDINGS

VOLUME 5 OF 5

HEARING BEFORE: Swain E. WHITFIELD, CHAIRMAN; Comer H.  
'Randy' RANDALL, VICE CHAIRMAN; and COMMISSIONERS  
John E. 'Butch' HOWARD, Elliott F. ELAM, Jr.,  
Elizabeth B. 'Lib' FLEMING, Robert T. 'Bob'  
BOCKMAN, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION:              F. David Butler, Esq.  
LEGAL ADVISORY STAFF

STAFF: Jocelyn G. Boyd, Chief Clerk/Administrator; James  
Spearman, Ph.D., Executive Assistant to Commissioners; Douglas K.  
Pratt, William O. Richardson, Thomas Ellison, and John Powers,  
Technical Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC,  
Court Reporter; and Calvin Woods, Hearing Room Assistant.

APPEARANCES:

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INC., APPLICANT

**LAURA P. VALTORTA, ESQUIRE**, representing FORTY  
LOVE POINT HOMEOWNERS' ASSOCIATION, INTERVENOR

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**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

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***JEFFREY M. NELSON, ESQUIRE***, and ***FLORENCE P. BELSER, ESQUIRE***, representing THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

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P R O C E E D I N G S

**CHAIRMAN WHITFIELD:** Please be seated. I'll call this hearing back to order, and I believe yesterday, Ms. Valtorta, we finished your presentation, your case.

So, Mr. Knowlton, I think you're up next.

**MR. KNOWLTON:** Thank you, members of the Commission and parties involved in this case.

[Witness affirmed]

THEREUPON came,

**J A M E S K N O W L T O N ,**

who, having been first duly affirmed, testified as follows:

**COMMISSIONER BOCKMAN:** Mr. Chairman.

**CHAIRMAN WHITFIELD:** Yeah, Commissioner Bockman.

**COMMISSIONER BOCKMAN:** Thank you, Mr. Chairman. This is somewhat extraordinary, but I'd like to make an explanation. I'm going to ask that Mr. Knowlton's, at least paragraphs five and seven of his prefiled testimony – which is only in the Commission's file at this point – I'm going to move that his paragraphs five and seven of his prefiled testimony be physically stricken from the Commission's file and not be incorporated in the record in this proceeding. The text of his

1 prefiled testimony in paragraphs five and seven is  
2 irrelevant to any issue in this proceeding and I  
3 think it shows a lack of respect both for the  
4 Commission and this proceeding, and I would, as an  
5 extraordinary motion sua sponte, as they say, from  
6 the Commission, I would ask the Commission  
7 physically strike those portions, paragraphs five  
8 and seven of Mr. Knowlton's prefiled testimony,  
9 from the Commission's file in this case and would  
10 ask that it not be incorporated in the record as if  
11 read the stand.

12 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
13 Bockman. Commissioners, you've heard Commissioner  
14 Bockman's motion. It's not necessary that we vote  
15 on this. I am going to order it, exactly what  
16 Commissioner Bockman just said in his motion, that  
17 paragraphs five and seven be physically stricken  
18 from the record.

19 And with that, Mr. Knowlton, you may proceed

20 **WITNESS:** Thank you. And I was going to say  
21 that I will be happy to go along with whatever that  
22 was, so it was not necessary for you to do that,  
23 but, thank you, very much.

24 It's been a long and difficult journey as a  
25 customer of this utility. A little over 10 years

1           ago, when we started, our bill was less than half  
2           what it is now. No other element of our lives have  
3           been more financially deprecating than paying our  
4           utility bill to this company. No other utility  
5           company, in my case, has been allowed to propagate  
6           this sort of – I don't know what you want to call  
7           it.

8           So I want to just go through the other points  
9           that I made in my filing – in my mailing, actually,  
10          because I didn't actually file – that I and my  
11          fellow customers have endured and suffered well-  
12          documented poor and sometimes criminal water  
13          service for decades. In my neighborhood, Foxwood,  
14          for many, many years we had VOCs in our water. The  
15          company was very slow. At one point it was over a  
16          year before we were even notified of the issue.  
17          And with rate increases far beyond the scope of  
18          normal cost of living in other areas of life.

19          In January of this year, I had a break in my  
20          water main. It was thankfully on their side of the  
21          meter. They came and about five hours later  
22          everything was sealed up. The two vehicles that  
23          came, one from the water company and one from the  
24          contractor that did the work, the water company  
25          employee said to me, "We'll be back in a few weeks

1 after things dry out, to fill in the hole that was  
2 created by this leak, and to spread some grass  
3 seed." That was in January. I still have the hole  
4 and I still have no grass seed. This is not  
5 unusual, if you talk to other customers of the  
6 utility, and the customer – the Commission, excuse  
7 me, I believe is well aware of years and years and  
8 years of this type of complaint.

9 Earlier in these proceedings, we heard that  
10 the company was now implementing some capital  
11 improvements project. I must say, I was very  
12 unimpressed with what they said they were going to  
13 do. In my neighborhood, for instance, when I  
14 watched them repair my water leak, I saw that an  
15 iron fitting had rusted through, after the 35 years  
16 or so of its life, and was replaced with another  
17 iron fitting when, for about \$1 more, a brass  
18 fitting could've been used and they would've never  
19 had to come back. I also know that all of the  
20 houses in my neighborhood are of this approximate  
21 age, and if the company were even remotely  
22 proactive, I believe that they would be  
23 periodically replacing these iron pieces, as they  
24 were able, rather than calling a contractor and two  
25 trucks to come out every time there's an incident

1 on an emergency basis. That is a very simple  
2 example of my assertion that this utility is not  
3 very much about utility and is far more about  
4 money.

5 In fact, in West Africa, the Hausa people,  
6 there is a proverb: They say, "Hali wutsiya ne."  
7 That means that the nature of a person or the  
8 nature of a company or the nature of anything is  
9 like the tail of a dog. No matter where they go or  
10 how they shake, it will follow them. And I submit  
11 to the Commission and to those gathered here that  
12 this company is about the money. They are a  
13 private-equity investment company masquerading as a  
14 utility and using water as a vehicle. And if they  
15 were as serious about their water as they were  
16 about their billing, they would be very successful.

17 I asserted that the customer base of the  
18 utility is generally incensed but very frustrated,  
19 to the point of hopelessness, because the  
20 Commission has allowed the utility all these years  
21 to carry on in very much the same way the hundreds,  
22 probably thousands – because I know there were  
23 hundreds of complaints from my neighborhood over  
24 the years, before we went off our well, at a  
25 combination of poor service and extremely high

1 bills, and it's a very, very personal thing when  
2 those of limited income – or any income – are  
3 touched so personally in a very bad way.

4 A few years ago, just three years ago in fact,  
5 we were in this very place hearing a rate case from  
6 this company. And now three years later, we're  
7 being asked – we the customers – are being asked to  
8 cough up another 30 percent. Nothing has changed.

9 Three years ago in my neighborhood, more than  
10 half of the neighborhood got involved and wrote  
11 letters and came and testified. This year, I got  
12 one person to come with me as moral support,  
13 yesterday, but they all just shrugged and said,  
14 "It's hopeless. Those people are going to do what  
15 they're going to do." I think that's very sad,  
16 when that's the opinion that the citizens have of a  
17 public body.

18 I asserted in my document that the \$11 million  
19 claimed by the utility as necessary reimbursement  
20 should be an amortized expense and not one of these  
21 regular rate increases, not part of this base. The  
22 reason that the \$11 million figure came in is that  
23 I went to one of the public hearings, the first one  
24 when Mr. Yannity took office as the information  
25 officer, the PR man, and I sat next to someone who

1           seemed to be very well-informed and I asked him a  
2           number of questions throughout the evening, and  
3           afterwards as well, to learn how he was so well-  
4           informed, and it seems that he had roots in the  
5           industry and here in Columbia, knew most of the  
6           actors in this involved, and was a lobbyist, and he  
7           said to me, "Well, the Canadian investors want  
8           their \$11 million back. They want the return on  
9           their investment." That was perhaps not the exact  
10          words, but a very close approximation of the quote.

11           I don't think any customers – well, that's not  
12          true. I do not begrudge any public utility the  
13          right to be profitable, to have what they need;  
14          investors are necessary in all business. We don't  
15          deny these people their investment. But to be  
16          coming back every three years for more money for an  
17          investment like this that should be stretched over  
18          many, many years is wrong, in my opinion. And I  
19          realize that the presentation of the case by the  
20          water company did not reflect that that's what was  
21          happening, but that's what I was told by this  
22          person – I assume, a lobbyist – at the York County  
23          meeting.

24           I would like to assure the Commission that I  
25          meant no lack of respect in what I wrote, but I

1 want the Commission to understand that we, the  
2 consumer, the little guys that are paying these  
3 bills month after month, are represented by you.  
4 We're the little guys, and your responsibility is  
5 vested by the State to represent us. And so I've  
6 taken some days off work, and sat up many a night  
7 trying to understand how I can move the Commission  
8 to act differently, decades in. As I read the  
9 electronic updates – I get the daily updates from  
10 the Public Service Commission website – it is very,  
11 very, very, very rare that I see the Commission  
12 vote against anything that is being presented. I  
13 understand you have your very compelling reasons,  
14 you have the rule of law. I don't understand and I  
15 don't claim to be able to sit in your chairs. But  
16 I beg you, on behalf of the good people of this  
17 State, to have mercy on us. I believe that is all.  
18 Thank you.

19 **CHAIRMAN WHITFIELD:** Thank you, Mr. Knowlton.  
20  
21  
22

23 [PURSUANT TO INSTRUCTION, THE PREFILED  
24 TESTIMONY {W/AMENDMENT} OF JAMES  
25 KNOWLTON FOLLOWS AT PGS 629-630]



12 March 2018

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MAR 16 2018

PSCSC  
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South Carolina Public Service Commission

Docket 2017-292-WS

COMPLAINT IN INTERVENTION

Intervenor James Knowlton, on behalf of himself and fellow customers of Carolina Water Service and Utilities Inc states and alleges as follows:

1. That I am a lay person with no legal training or knowledge of Intervenor techniques and practice
2. That I and my fellow customers have endured and suffered well-documented poor and sometimes criminal water service for decades, with rate increases far beyond the scope of normal cost-of-living under the Utility- these factors being well-known to DHEC and ORS
3. That the customer base of the Utility is generally incensed yet frustrated to the point of hopelessness that the Public Service Commission is allowing the Utility to carry on year after year in this combination of poor service and profitability at the grievous expense of the customers, when it is the PSC's sworn duty to be fair to both
4. That the eleven million dollars claimed by the Utility as necessary reimbursement should be an amortized expense over many years of operation, and not a rapid return on investments by venture capitalists

5. [REDACTED]

6. That the Utility's actions represent prolonged and repetitive abuse to the Intervenor and to the Customers who for decades have registered a multitude of complaints to little avail

7.

The Intervenor therefore submits these statements, and petitions the members of the Public Service Commission – begging them to courageously assume their God-given responsibility before the Customers of this State, and to not be present without vigilance as was Denhollander's mother.

*JK Knowlton*

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1                   **CHAIRMAN WHITFIELD:** Let's see if there are  
2 any questions from the parties. Ms. Valtorta?

3                   **MS. VALTORTA:** I don't have any questions.

4                   **CHAIRMAN WHITFIELD:** Office of Regulatory  
5 Staff?

6                   **MR. NELSON:** I do have a few questions, Mr.  
7 Chairman.

8                   **CHAIRMAN WHITFIELD:** Tell you what – I'm  
9 sorry, I jumped the gun. If you don't mind, I want  
10 to go to the company attorneys. Mr. Terreni, Mr.  
11 Elliot?

12                   **MR. ELLIOTT:** No questions.

13                   **CHAIRMAN WHITFIELD:** All right. Mr. Nelson,  
14 you're back up.

15                   **MR. NELSON:** Thank you, Mr. Chairman.

16                   **CROSS EXAMINATION**

17 **BY MR. NELSON:**

18 **Q** Mr. Knowlton, something that you just mentioned during  
19 your testimony here, you talked about – you said there  
20 was an issue that occurred and that it was a year before  
21 you were notified, but I didn't get some of the details  
22 there. Could you tell me what the issue was, exactly,  
23 and how eventually, I guess, you were notified of this?

24 **A** Yes. The company did notify us, and I'm not completely  
25 clear as to the details, but we had two different VOCs

1 in our water because we were on a well system at the  
2 time, and we are near a printing plant that, years ago,  
3 had dumped some of their drums of methyl ethyl ketone  
4 and some other printing solvents there.

5 **Q** So it was your understand that there was some kind of a  
6 problem, that there was some kind of pollutant or  
7 something in the water there at –

8 **A** Yes, volatile organic compounds were in the water. It  
9 wasn't nearly as much of an issue to me, because I had a  
10 home treatment system that took care of it. But there  
11 was a considerable delay before we were notified.

12 **Q** Do you have any idea of what was done by the company  
13 after they found out about this problem?

14 **A** I do remember reading all of their notices to us, at  
15 that point, assuring us that they had shut down certain  
16 wellheads, that they were monitoring regularly, that –  
17 yeah, that's most of what I remember.

18 **Q** So that was water that was coming out of the well that  
19 was providing water to your –

20 **A** That is correct, and I think it was two years after that  
21 they took down our tank and they hooked us up to York  
22 County Water.

23 **Q** So now y'all are receiving water from York County.

24 **A** We are receiving water from York County that is up-  
25 charged by the company.

1   **Q**   Thank you. You also mentioned, I think, something about  
2       fittings in your neighborhood? I think you talked about  
3       — was it iron or some type of metal fitting?

4   **A**   Yeah.

5   **Q**   Could you tell me where that was and where you observed  
6       that?

7   **A**   All right. That is the union between the feed line to  
8       the meter and the meter, so it's that metal fitting.

9   **Q**   As far as you know, that's consistent throughout your  
10       neighborhood that this type of fitting has been used? I  
11       guess I also heard about several instances where it's  
12       failed. Is that true?

13   **A**   Oh, yes. And, now, this is happening with increasing  
14       frequency because those are all reaching that age where  
15       they need to be replaced or they're going to leak. And  
16       it's only by act of God that mine broke on the company  
17       side of the meter and not on my house side of the meter,  
18       because that would have cost me a lot of money.

19               **MR. NELSON:** Thank you, Mr. Knowlton. I  
20       appreciate it.

21               **CHAIRMAN WHITFIELD:** Mr. Knowlton, ORS is  
22       finished and I don't think any of the other parties  
23       have any questions for this witness? We're going  
24       to go to Commissioner questions for Mr. Knowlton  
25       right now. But before I do, I want to get one

1 clarification from Commissioner Bockman.

2 Commissioner Bockman, in your motion, you intended,  
3 now that we've ordered those two items physically  
4 stricken, you intended for the rest of his prefiled  
5 testimony to be entered into the record; is that  
6 correct? It was already on our DMS. Did you want  
7 to –

8 **COMMISSIONER BOCKMAN:** Mr. Chairman, yes, if –  
9 with the exception of those two paragraphs, you  
10 know, I don't – my objection only went to those two  
11 paragraphs.

12 **CHAIRMAN WHITFIELD:** Okay. Well, I'll go to  
13 the Intervenor. Mr. Knowlton, is your wish to move  
14 what you have prefiled on into the record, minus  
15 the two paragraphs?

16 **WITNESS:** I actually don't understand the  
17 reason for the seventh paragraph to be removed, but  
18 if it pleases the Commission, that's fine. That  
19 would be okay.

20 **CHAIRMAN WHITFIELD:** All right. Well, we'll  
21 move your prefiled testimony in, minus the two  
22 paragraphs, five and seven, and we will enter them  
23 into the record.

24 *[See pgs 629-630]*

25 At this time, we're going to take Commissioner

1 questions for Mr. Knowlton. Commissioner Fleming.

2 **COMMISSIONER FLEMING:** Yes.

3 **EXAMINATION**

4 **BY COMMISSIONER FLEMING:**

5 **Q** I just wanted clarification. You said you spoke with  
6 Mr. Yannity?

7 **A** Yes.

8 **Q** At the Thunderbird night hearing?

9 **A** That is correct.

10 **Q** And you said – what was it that you said about the \$11  
11 million?

12 **A** Mr. Yannity was not involved in the \$11 million  
13 conversation. That was someone that was sitting near me  
14 in the audience that evening, that I chatted with  
15 afterward, because he seemed so well-informed.

16 **Q** Oh, so you don't know who the person was that –

17 **A** That is correct.

18 **Q** Okay. It was just someone in the audience, there.

19 **A** Yes.

20 **Q** Okay.

21 **A** And I think they were a lobbyist on behalf of the  
22 company.

23 **Q** The person you didn't know.

24 **A** I believe that's the case.

25 **COMMISSIONER FLEMING:** Okay. All right.

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Thank you. Just wanted that clarification.

**CHAIRMAN WHITFIELD:** Thank you, Commissioner Fleming.

Commissioners, any other – Commissioner Elam.

**EXAMINATION**

**BY COMMISSIONER ELAM:**

**Q** Mr. Knowlton, good morning. Without being confused for being a defender of Carolina Water, as a customer of Carolina Water, were you in the hearing room yesterday when there was talk about a million dollars' worth of legal expense –

**A** I was.

**Q** – that was going to be amortized over 66 years?

**A** I heard that part, yes.

**Q** Do you know of anything in ORS's review that has not spread amounts over a period of years that is inappropriate for that investment?

**A** I am not – I have never seen anything that ORS did that I understood well enough to quarrel with. My opinion is that they generally are fair people, and so, I don't, no.

**Q** You're aware of their recommendation in this case.

**A** Yes, I am.

**COMMISSIONER ELAM:** That's all. Thank you.

**CHAIRMAN WHITFIELD:** Thank you, Commissioner



1 Elam.

2 Commissioners, any other questions for this  
3 witness?

4 [No response]

5 I have one or two for you, Mr. Knowlton.

6 **EXAMINATION**

7 **BY CHAIRMAN WHITFIELD:**

8 **Q** Just kind of for the record, I do recall you being  
9 involved in previous cases, and I know you put a lot of  
10 time into that in the past and, obviously, into this  
11 one, as well. Kind of going down the path Commissioner  
12 Elam was going down, do you realize that ORS, Office of  
13 Regulatory Staff, as the law is written now, that they  
14 advocate for the ratepayer, for the customers and  
15 ratepayers? You're understanding that?

16 **A** Yes, I do understand that.

17 **Q** All right. And if you could, how much – I know you just  
18 said you don't always understand everything that they  
19 do, but Mr. Nelson just asked you a few questions. How  
20 much interaction have you had in this case with either  
21 Mr. Nelson or anyone on the ORS staff?

22 **A** I spoke briefly with Nanette Edwards yesterday, because  
23 she recognized me from a previous case, and she thanked  
24 me for my time in coming. There has not been a total  
25 of, I don't think, two minutes of any kind of exchange,

1 total, between all of the parties involved.

2 **Q** So you haven't really worked with them this time on this  
3 case, prior to yesterday?

4 **A** Negative. All of this was in my notes.

5 **Q** All right. Well, you did say you understand that they  
6 are the ones that advocate on behalf of the customer and  
7 handle consumer complaints, as well. You understand  
8 that, too.

9 **A** I had always thought that our complaint would be lodged  
10 on the Public Service website, so I was not aware that I  
11 could go to ORS with a complaint.

12 **Q** You were not aware you could go to them directly?

13 **A** I was not, that is correct.

14 **Q** You didn't realize that in previous cases either?

15 **A** That is correct. I've always thought that we went to  
16 the Public Service website and we filed a complaint.

17 **Q** You can go to ORS directly. Mr. Nelson asked you some  
18 questions, and I think you might want to speak with  
19 them. They can talk with you off the record, unlike us.

20 **A** Thank you.

21 **CHAIRMAN WHITFIELD:** So, I appreciate your  
22 participation, and I don't think there are any  
23 further questions from Commissioners. So, you may  
24 step down.

25 **WITNESS:** Thank you.

1 [WHEREUPON, the witness stood aside.]

2 CHAIRMAN WHITFIELD: At this time were going to  
3 call on South Carolina Office of Regulatory Staff to  
4 present their case. Ms. Belser, Mr. Nelson?

5 MS. BELSER: Thank you, Mr. Chairman. ORS  
6 will be presenting a panel of witnesses today. I'd  
7 ask that the witnesses come to the table, please.

8 As the witnesses are being seated, Mr.  
9 Chairman, I would advised the Commission that our  
10 panel consists of Dr. Douglas Carlisle, Mr. Matthew  
11 Schellinger, and Mr. Zachary Payne. And we will  
12 present our witnesses in that order, if it please  
13 the Commission.

14 CHAIRMAN WHITFIELD: Yes, Ms. Belser.

15 [Witnesses affirmed]

16 THEREUPON came,

17 D O U G L A S H . C A R L I S L E , P h . D . ,  
18 M A T T H E W P . S C H E L L I N G E R , I I ,  
19 Z A C H A R Y J . P A Y N E ,

20 called as witnesses on behalf of the South Carolina Office of  
21 Regulatory Staff, who, having been first duly affirmed, were  
22 examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. BELSER:

25 Q Dr. Carlisle, good morning.

1 A [CARLISLE] Good morning.

2 Q Please tell the Commission your name and occupation.

3 A [CARLISLE] I am Douglas H. Carlisle, and I am the  
4 economist at the Office of Regulatory Staff.

5 Q And are you the same Douglas Carlisle who prepared and  
6 caused to be filed 14 pages of revised direct testimony  
7 in this case, on or about March 15th?

8 A [CARLISLE] I am.

9 Q Do you have any changes, edits, or corrections to your  
10 prefiled revised direct testimony?

11 A [CARLISLE] I have one.

12 Q Please give the page number where the correction is,  
13 please.

14 A [CARLISLE] It is page 12-of-14.

15 Q And what line on that page?

16 A [CARLISLE] Line 14.

17 COMMISSIONER ELAM: What is that?

18 MS. BELSER: The revised direct.

19 BY MS. BELSER:

20 Q What is that correction, Dr. Carlisle?

21 A [CARLISLE] I will read the sentence as it was,  
22 originally, and then with the correction, and then I'll  
23 read the correction again. "This change over the years  
24 after the initial construction of the deciles, which in  
25 turn were constructed from data first assembled by

1 CRSP," should read, "This occurred in the years after  
2 the initial construction of the deciles, which were in  
3 turn constructed from the data first assembled by CSRP."  
4 So "change over" would be stricken and "occurred in"  
5 would be substituted.

6 **Q** With that one change, is your revised direct testimony  
7 correct today?

8 **A** [CARLISLE] Yes.

9 **Q** And if I asked you those questions today, would your  
10 responses be the same?

11 **A** [CARLISLE] They would.

12 **MS. BELSER:** Mr. Chairman, I would ask that  
13 Mr. Carlisle's revised direct testimony, as amended  
14 today, be admitted into the record.

15 **CHAIRMAN WHITFIELD:** Dr. Carlisle's revised  
16 testimony, as amended, will be entered into the  
17 record.

18 **BY MS. BELSER:**

19 **Q** And, Dr. Carlisle, with your revised direct testimony,  
20 did you also file approximately – well, 52 pages of  
21 exhibits marked DHC-1 through DHC-14?

22 **A** [CARLISLE] Yes, I did.

23 **Q** Do you have any changes, edits, or corrections to any of  
24 those exhibits?

25 **A** [CARLISLE] No, I do not.

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**MS. BELSER:** Mr. Chairman, I would ask that Dr. Carlisle's exhibits attached to his revised direct testimony be admitted into the record as a composite exhibit, as the next hearing exhibit, please.

**CHAIRMAN WHITFIELD:** Dr. Carlisle's Exhibits DHC-1 through -14 will be entered into the record as Hearing Exhibit No. 14.

[WHEREUPON, Hearing Exhibit No. 14 was marked and received in evidence.]

**BY MS. BELSER:**

**Q** Dr. Carlisle, did you also prepare 15 pages of surrebuttal testimony that was filed with the Commission on or about March 26th?

**A** [CARLISLE] Yes, I did.

**Q** Do you have any changes, corrections, or edits to your surrebuttal testimony?

**A** [CARLISLE] No, I do not.

**MS. BELSER:** Mr. Chairman, I would ask that Dr. Carlisle's surrebuttal testimony be entered into the record as if read from the stand.

**CHAIRMAN WHITFIELD:** Dr. Carlisle's surrebuttal testimony will be entered into the record as if given orally from the stand. So ordered, Ms. Belser.

1 **BY MS. BELSER:**

2 **Q** And, Dr. Carlisle, you did not have any exhibits with  
3 the surrebuttal testimony; is that right?

4 **A** [CARLISLE] I did not.

5 **Q** Dr. Carlisle, have you prepared a summary of your direct  
6 and surrebuttal testimonies?

7 **A** [CARLISLE] Yes, I have.

8 **Q** Would you please present that to the Commission, at this  
9 time?

10 **A** [CARLISLE] Gladly.

11 Good morning, Chairman Whitfield and Commissioners.

12 I performed analyses to determine the appropriate  
13 return on equity to recommend to this Commission for  
14 Carolina Water Service, Inc. I used the discounted cash  
15 flow model, which indicated an 8.82 percent ROE – return  
16 on equity – a comparable earnings model analysis, which  
17 indicated an 8.89 percent ROE, and the capital asset  
18 pricing model, which indicated 9.54 percent ROE.

19 The average of these three analyses is 9.08  
20 percent, my point recommendation.

21 I note that I accepted the capital structure  
22 submitted by CWS, the 51.89 percent equity and 48.11  
23 percent debt. I note that I agree with almost all the  
24 debt rate, up to 6.58 percent, but disagree with the  
25 200ths of 1 percent – that is, 0.02 percent. This small

1       portion represents a fee associated with a debt  
2       flotation by the parent company to CWS some years ago  
3       that I believe has worked to the detriment of the  
4       ratepayers.

5               This concludes my summary.

6               **MS. BELSER:** Thank you, Dr. Carlisle.

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23 [PURSUANT TO PREVIOUS INSTRUCTION, THE  
24 PREFILED REVISED DIRECT TESTIMONY {W/CORR'N} OF  
25 DOUGLAS H. CARLISLE, Ph.D., FOLLOWS AT PGS 645-659]



**THE OFFICE OF REGULATORY STAFF**

**REVISED DIRECT TESTIMONY & EXHIBITS**

**OF**

**DR. DOUGLAS H. CARLISLE**

**MARCH 15, 2018**



**DOCKET NO. 2017-292-WS**

# **Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services**

A. I received a Bachelor of Arts from Brown University, a Master's Degree in Public Administration and a Ph.D. in Government and International Relations, both from the University of Virginia. I have previously testified before the Public Service Commission of South Carolina concerning rate of return. I am a Certified Rate of Return Analyst. After graduate school, I was employed as an evaluator and evaluator-in-charge for about seven years at the United States Government Accountability Office in Washington, D.C. After leaving the GAO, I worked as a market consultant and instructor at Midlands Technical College in South Carolina. Next, I began my employment with the State of South Carolina at the State Reorganization Commission, which functioned as an audit follow-up entity. I

BOEDEFER BENI ERLER FAKULTÄTS-UND GRUNDFACHFACHLEHRSTUHL FÜR VERGLEICHENDE LITERATURWISSENSCHAFT UND KULTURSTUDIEN

**A.** Yes.

**Q. WHAT IS YOUR RECOMMENDED RETURN ON EQUITY (“ROE”)?**

Method	Indicated Cost of Equity
DCF	8.82%
CEM	8.89%
CAP-M	9.54%
Average	9.08%

**Q. WHAT STANDARDS GOVERN RATE OF RETURN?**

<sup>2</sup> *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 603 (1944).

**Q. IF NEITHER THE COMPANY NOR ITS PARENT HAS TRADED STOCK, HOW DID YOU PERFORM YOUR ANALYSIS TO RECOMMEND A RETURN ON EQUITY?**

A. To develop a fair rate of return recommendation for CWS, I evaluated the return requirements of investors on the common stock of three groups: publicly held water and sewerage service companies and two Comparable Earnings Model (“CEM”) groups. I then applied to the first group, two well-known and generally accepted methods for determining a recommended return on equity, the Discounted Cash Flow (“DCF”) Model and Capital Asset Pricing Methods (“CAP-M”).

**Q. WHY DID YOU EXAMINE DATA ON COMPANIES WITH TRADED STOCK?**

**A.** First, CWS has asked for its rates to be determined using the rate-of-return on rate-base methodology. Second, publicly traded water utilities are, after all, in the same line of business as CWS and so share similar risks. Third, data is far more readily available about publicly traded companies, so it is practical to use them.

**Q. HOW DID YOU SELECT THESE COMPANIES AND GROUPS?**

A. For my DCF analysis I selected those companies classified as “water utilities” by Value Line or by *Yahoo! Finance* that engage in water distribution to customers and obtain most of their revenues from utility services, which include water and sewerage. For my CEM analysis I selected companies with comparable  $\beta$ ’s to those of the companies in my DCF Proxy Group.

**Q. WHAT CAPITAL STRUCTURE DID YOU USE FOR YOUR ANALYSIS OF CWS?**

A. I used the Capital Structure from the application, 51.89% Equity and 48.11% Long-Term Debt. I, adjusted the Cost of Debt from 6.60% to 6.58% to protect the ratepayer

1 from the unfavorable terms of the Long-Term Debt as structured by the Company. This  
2 position is consistent with my position in Docket Nos. 2013-201-WS, 2013-275-WS and  
3 2015-199-WS.

4 The objectionable features of the Cost of Debt arise from multiple factors:  
5 consolidation of Utilities Inc.'s ("UI,"s, the parent company's) debt into one (1) flotation  
6 when interest rates were very high; a make-whole provision, which has prevented UI from  
7 refinancing its Long-Term Debt at more favorable rates; and a ten (10) year interest-only  
8 period, which greatly increased the overall cost of Debt by adding \$59 million to the cost  
9 paid by customers of UI's various subsidiaries. See Revised Exhibit DHC-14.

10 **Q. COMPARE THE THREE METHODS THAT YOU USED TO CALCULATE AN**  
11 **APPROPRIATE COST OF EQUITY FOR CWS.**

12 **A.** The three methods I used have different strengths. DCF focuses on money coming  
13 into and flowing out of companies. Specifically, the DCF focuses on the flow of money  
14 out through dividends and the flow of money into companies through revenues, which are  
15 then netted to Earnings per Share ("EPS") and allocated to Book Value per Share ("BVPS")  
16 and Dividends per Share ("DPS"). By contrast, the CEM focuses on changes in Book  
17 Value of non-regulated companies and adjusts for risk to reveal an appropriate ROE. The  
18 CEM itself does not expressly have a generally accepted approach to this adjustment, but  
19 I have developed a method that uses well-known types of data. CEM is intuitive in that,  
20 other things being equal, more assets should mean more production. The CAP-M, by  
21 contrast, focuses on the "hurdle rate," that rate of return that an investor must realize to  
22 surpass competing potential investments of comparable risk. All three methods focus on  
23 what investment accomplishes and not upon corporate preferences.

**Q. WHAT IS THE BASIS FOR THE DCF MODEL?**

**A.** This model's basic premise is that investors value stocks based on the stream of cash flows they can enjoy for the indefinite future and that the only certain flow of cash is the value of dividends received. The DCF is a perpetuity, so cash must flow indefinitely; therefore, in the long run, dividend growth cannot exceed company growth. If dividends were to grow faster than the underlying company growth, the dividend would eventually become unsustainable, and the model's basic assumptions would be violated. The growth in dividends, therefore, cannot exceed the growth in earnings. In fact, all indicators of growth must, in the long run, grow at rates compatible with each other. The DCF model is expressed by this formula:

$$K = D_1/P_0 + g;$$

where K = cost of equity capital (ROE);  $D_1$  = current yearly Dividends per Share ("DPS");  $P_0$  = purchase price; and g = growth.

**Q. HOW DO YOU TAKE INTO ACCOUNT THE ASSUMPTIONS ABOUT GROWTH IN YOUR ANALYSIS?**

**A.** There are several steps for applying the assumptions of the DCF Model. Each strategy, in logical order, points to the next.

First, the DCF is a long-term model, so some temporary departures from a straight-line estimate of ROE are to be expected. This reasoning implies that having several indicators of growth is better than having just one. Such data is readily available (Revised Exhibit DHC-3) and useful to reinforce comparability, since the Proxy Group companies do vary in their characteristics. See Revised Exhibit DHC-4. My analysis uses four

indicators: 1) EPS (Revised Exhibit DHC-5); 2) BVPS (Revised Exhibit DHC-6); 3) DPS (Revised Exhibit DHC-7); and, 4) Revenue or Sales (Revised Exhibit DHC-8).

Second, my analysis adheres to a steady-state model by using several periods to calculate historical trends and to dampen any temporary divergences. This method provides a more reliable guide to long-term growth. For that reason, I have used three- five- and ten-year averages/means and medians. This approach lessens the impact of any transient phenomena. Such reasoning appeals to common sense. For example, an investor would need some convincing evidence to believe that a company whose earnings and book value having been growing at 5% would suddenly grow at 25%. On the other hand, true departures from the trend must be recognized in a way that a naïve straight-line projection from the past will not.

Third, my approach recognizes the importance of analysts' opinions. Although it might seem that analysts make their living discovering new trends or departures from old ones, their predictions also moderate analyses based strictly on historical data and add some balance to the estimation of growth. Investors know about analysts and may consult them and be influenced by estimates.

**Q. HOW DOES YOUR DCF ANALYSIS CONFORM TO THE MODEL WITH REGARD TO THE OTHER TERMS OF THE BASIC DCF EQUATION?**

**A.** The term,  $D_1/P_0$ , finds a simple expression as Dividend Yield. A very narrow interpretation of the formula would insist upon using a price from the previous year and determining the yearly dividend paid as of a year later. Investors know about companies' histories of dividend increases and they expect increases if a company has a history of increasing dividends. Companies announce their intention to maintain or increase their



dividends during the year and price data tends to be an average of prices over time. The current dividend yield reflects what has happened leading up to the current moment. Thus, the problem with the dividend yield is not, knowing what it is at a given moment, but rather that investors expect it to grow. Since investors know that a company may announce an increase in its dividend in the upcoming twelve months after the dividend yield information is available, a simple convention to recognize such a possible increase is to multiply the yield by half-again the growth rate, producing this modified equation in which K is the Cost of Equity:

$$K = ([D_1/P_0] * (1 + (1/2)g)) + g$$

While this equation may seem to violate the assumptions of the DCF by having dividends outpace growth (“g”) or by restricting dividends to a growth rate below companies’ growth rates, in fact it is consistent with the model. Expectations of growth are simply applied to dividend yield in this equation. Dividend yield is brought into balance with growth because expectations are incorporated into both parts. The difference between how expectations are incorporated is that, for growth, they are incorporated in the development of the “g” number, whereas, in the dividend yield, they are incorporated in the equation itself.

**Q. WHAT TRENDS DOES YOUR DCF ANALYSIS INDICATE?**

**A.** Revised Exhibits DHC-5, DHC-7, and DHC-9 reveal high EPS growth, slightly lower DPS growth, and relatively low Dividend Yields, respectively. In the long run, EPS growth will be constrained by Sales growth and BVPS will need to be more comparable to the future EPS growth. Meanwhile, if the stock prices of the companies in the Proxy Group growth moderately, remain level, or fall, DPS growth will eventually raise Dividend

1 Yields. The recent changes in taxes, however, mean that many investors will get to keep  
2 more of their dividends because they will pay lower taxes on them. Accordingly, in the  
3 long-run, companies will not have to pay as high dividends to meet investors' demand.

4 **Q. WHAT WAS YOUR DCF RESULT?**

5 **A.** My DCF indicates a cost of Equity of 8.82% shown in my DCF summary  
6 calculation in Revised Exhibit DHC-9.

7 **Q. WHAT IS THE BASIC PREMISE OF THE CEM?**

8 **A.** This Model focuses on the costs of goods and services that generate earnings. For  
9 this reason, CEM analyses look at changes in book value (Revised Exhibits DHC-10 and  
10 DHC-11). Changes in book value indicate a greater capacity to produce. The logic of CEM  
11 is analogous to that of the DCF. The change in book value comes from the store of value  
12 in retained equity. With prudent management and no revolutionary developments, the  
13 greater the book value of a company, the greater the resulting ROE.

14 **Q. WHAT ARE THE MAJOR CONSIDERATIONS IN IMPLEMENTING THE CEM**  
15 **AND HOW DID YOU ADDRESS THEM?**

16 **A.** The Model does not indicate a single approach to ascertaining what is comparable  
17 and so analyses often look at great quantities of data over long periods of time. Analyses  
18 may use whole sectors of the economy, several sectors of the economy, or even stock  
19 indices and show several decades of results. While such approaches mitigate threats to the  
20 Model, there is no single standard for comparability. The lack of a benchmark makes  
21 conclusions from the data judgmental. Although there is nothing wrong with applying  
22 judgment to interpret results, I have used a more transparent approach.

1           The standard I used to select comparable stocks was the range of  $\beta$  that Value Line  
2 provides for the companies in my DCF Proxy Group. Leaving aside academic arguments  
3 about its predictive value,  $\beta$  has intuitive appeal because stocks whose prices vary in the  
4 same manner as those of traded water and water and sewer companies probably have  
5 something in common with respect to their earning capacity. As I pursued my method  
6 following the CEM, however, I encountered challenges.

7 **Q. WHAT CHALLENGES DID YOU ENCOUNTER IN CALCULATING THE CEM?**

8 **A.**           My procedure for calculating the CEM is challenging in two respects: (1) the  
9 number of companies with predicted BVPS growth has shrunk to such an extent that there  
10 are very few companies when the CEM proxy group is highly stratified by  $\beta$ ; (2) a  
11 disconnection has developed between  $\beta$  and BVPS. The dearth of companies weakens  
12 generalizations about companies making them less reliable and the deterioration in the  
13 usefulness of highly stratified  $\beta$ 's hampers risk-adjustment and comparability.  
14 Accordingly, I have changed my method to make my results more reliable.

15           The underlying cause of these challenges is the lingering effects of the Great  
16 Recession, when asset values dropped and there was a net decline in Owners' Equity, viz.,  
17 Book Value, for three quarters. See Revised Exhibit DHC-12.

18 **Q. HOW HAVE YOU ADDRESSED THESE CHALLENGES?**

19 **A.**           I have reduced the number of  $\beta$  strata, substituted five-year  $\beta$ 's for ten-year  $\beta$ 's,  
20 used only current  $\beta$ 's, and used different groups for my retrospective CEM and prospective  
21 CEM. These techniques make my analysis less vulnerable to threats of reliability by  
22 avoiding a very small and perhaps unrepresentative selection of companies and by

BOEHRINGER INC. PROLOGIS 2003-12-16 14:52:33 PM 05 EPS CDB66e12421042923029157 a7f46e 021837

**A.** There have been debates about whether  $\beta$  properly measures systematic risk, with some researchers finding that it does not and others finding that it does. Some people have

**Q. DESCRIBE YOUR APPROACH REGARDING THE DATA YOU USED FOR THE Rf.**

<sup>3</sup> Ravi Jagannathan and Ellen R. McGrattan, "The CAPM Debate," Federal Reserve Bank of Minneapolis Quarterly Review, Vol. 19, No. 4, fall 1995, pp. 2-17.

1       they were no longer true deciles, but rather some sort of “decile-hybrids.” See Revised  
2       Exhibit DHC-1.

To adjust for the change in SBBI, I weight the decile-hybrids by the number of companies in them. Since each of the ten (10) groups comprises companies in a range of capitalization, this treatment does not lessen whatever impact company size may have, but it does configure the data to resemble the investment menu that investors face. After all, investors, be they individuals or professional investors working for an investment entity, invest in discrete companies, not in capitalizations. I am aware that the size of a company is alleged to influence the total return an investor may receive from it and I calculated the average SBBI-decile return to make my results resemble one that investors over a long period might face. See Revised Exhibit DHC-13.

2     **Q.     IF YOU DISAGREE WITH THE SMALL COMPANY PREMIUM, WHY DID YOU**  
3     **USE THE DECILE-HYBRIDS?**

4     **A.**           The main reason I used decile-hybrids is because they are embedded in the main  
5           source of data often used in CAP-M analyses. I used decile-hybrids in my analysis to be  
6           consistent with my practice in previous cases.

**Q. HOW DID YOU PERFORM YOUR CAP-M?**

8     **A.**           My first calculation treated each SBB decile as equal. For the  $R_f$  I used the  
9           projected 30-year Treasury bond yield, using a projection from a poll of economists  
10          conducted by Blue Chip<sup>TM</sup>. This consensus forecast looks 18 months into the future. It is  
11          currently 3.7% (Revised Exhibit DHC-2). For the  $R_m$ , I used the compound average growth  
12          rate for stocks as published in SBB. I averaged the returns for the deciles of company size  
13          and obtained an average (geometric mean or compound annual growth rate) of 11.27%

(Revised Exhibit DHC-13, p. 3 of 3). The ERP is the difference of these two numbers, or 7.57%. The median  $\beta$  for the water companies in my DCF Proxy Group is 0.75 (Revised Exhibit DHC-13, p. 1 of 3. When one multiplies 7.57% by 0.75, which is water-company  $\beta$ , the result is 5.68%, which is the risk-adjusted ERP. This step recognizes the relative risk of water companies compared to  $R_m$ . The calculation shows that a company comparable to CWS should receive 3.70% points (the  $R_f$ ) above the ERP, which produces 9.38% (Revised Exhibit DHC-13).

My second calculation weighted each SBBI CRSP decile by the number of companies in it. The weighted average was 11.70%, which resulted in an ERP of 8.00% after subtracting the  $R_f$  of 3.7%. Adjusting the ERP for risk produced 6.00% for a total cost of Equity of 9.70%. See Revised Exhibit DHC-13.

Given the reasons I have discussed, my CAP-M has a range of 9.38%-9.70%. I have averaged my two CAP-M results for a final CAP-M of 9.54%.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes, it does.

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[PURSUANT TO PREVIOUS INSTRUCTION, THE  
PREFILED SURREBUTTAL TESTIMONY OF DOUGLAS H.  
CARLISLE, Ph.D., FOLLOWS AT PGS 661-676]



**THE OFFICE OF REGULATORY STAFF**  
**SURREBUTTAL TESTIMONY**  
**OF**  
**DR. DOUGLAS H. CARLISLE**  
**MARCH 26, 2018**



**DOCKET NO. 2017-292-WS**

**Application of Carolina Water Service, Incorporated for  
Approval of an Increase in Its Rates for Water and Sewer  
Services**

**SURREBUTTAL TESTIMONY OF****DR. DOUGLAS H. CARLISLE****ON BEHALF OF****THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF****DOCKET NO. 2017-292-WS****IN RE: APPLICATION OF CAROLINA WATER SERVICE,****INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR****WATER AND SEWER SERVICES****Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Douglas H. Carlisle. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Economist for the Office of Regulatory Staff (“ORS”).

**Q. ARE YOU THE SAME DOUGLAS H. CARLISLE WHO PREVIOUSLY SUBMITTED PREPARED DIRECT TESTIMONY IN THIS PROCEEDING?**

**A.** Yes, I am.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my Surrebuttal testimony is to respond to the Rebuttal Testimony of Carolina Water Service, Inc. (“CWS”) witness, Dylan D’Ascendis.

**Q. PROVIDE AN OVERVIEW OF WITNESS D’ASCENDIS’ REBUTTAL TESTIMONY.**

1     **A.**             Company witness D'Ascendis asserts in his rebuttal testimony that investors have  
2             the following traits:

- 3             1. They have complete faith in analysts' predictions and do not care if analysts'  
4             predictions are correct. (See D'Ascendis Rebuttal, pp. 4-7.)
- 5             2. They believe only Earnings per Share ("EPS") predictions are reliable indicators of  
6             growth. (See D'Ascendis Rebuttal, pp. 7-8.)
- 7             3. They believe that small companies bring higher returns, but they invest more  
8             heavily in larger companies. (See D'Ascendis Rebuttal, pp. 7-8, 14-15.)
- 9             4. They believe they must invest more money every year. (This belief is inherent in  
10            the use of the Arithmetic Mean as discussed in D'Ascendis Rebuttal, pp. 8-9.)
- 11            5. They are relatively indifferent between losing all their money on a given investment  
12            and gaining on that investment in a given year. (This belief is inherent in the use  
13            of the Small Company Premium as discussed in D'Ascendis Rebuttal, pp. 10,  
14            14-15.)
- 15            6. They believe that the past growth of a company is completely irrelevant to its future  
16            performance. (See D'Ascendis Rebuttal, pp.5-7, especially p.6.)
- 17            7. They generalize from the whole market's behavior to individual companies'  
18            expected return. (See discussions of both ECAP-M and the Small Company  
19            Premium, pp. 10-11 and pp. 10, 14-15, respectively.)

20            Additionally, witness D'Ascendis asserts the rate payers of CWS should pay for the fee of  
21            0.02% (0.0002) added to the Debt Rate of 6.58% that allowed its parent company to  
22            undertake Long-Term Debt which consolidated all its Debt into one tranche, with a

1 make-whole provision and an interest-only period of ten (10) years, which was completed  
2 at the end of 2017.

3 **Q. WHAT DO YOU CONCLUDE ABOUT THESE CHARACTERISTICS OF**  
4 **INVESTORS AND THIS DEBT FEE?**

5 **A.** I disagree with the characteristics and the additional debt fee assertions.

6 **Q. DISCUSS WHY INVESTORS MIGHT HAVE DOUBTS ABOUT ANALYSTS'**  
7 **ACCURACY.**

8 **A.** It is my opinion that stock analysts, collectively, tend to produce overly optimistic  
9 estimates. Three (3) analysts for McKinsey & Company, a global management consulting  
10 company, reviewed 25 years of data comparing stock analysts' estimates and the  
11 performance of Standard & Poor's ("S&P") 500 companies. In their 2010 article, "Equity  
12 Analysts: Still Too Bullish," they stated:

13 No executive would dispute that analysts' forecasts serve as an  
14 important benchmark of the current and future health of companies. To  
15 better understand their accuracy, we undertook research nearly a decade ago  
16 that produced sobering results. Analysts, we found, were typically  
17 overoptimistic, slow to revise their forecasts to reflect new economic  
18 conditions, and prone to make increasingly inaccurate forecasts when  
19 economic growth declined.

20 Alas, a recently completed update of our work only reinforces this  
21 view — despite a series of rules and regulations, dating to the last decade,  
22 that were intended to improve the quality of the analysts' long-term earnings  
23 forecasts, restore investor confidence in them, and prevent conflicts of  
24 interest.<sup>1</sup>

25  
26 Dr. Mark Bradshaw of Boston College and three (3) colleagues from other  
27 universities performed a thorough review of analysts' accuracy compared to projections

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<sup>1</sup>Marc Goedhart, Rishi Raj and Abhishek Saxena, "Equity Analysts: Still too Bullish," in McKinsey Quarterly, April 2010, accessed through on-line version <https://www.mckinseyquarterly.com>.

1 based upon time-series data. The study demonstrated that, at best, analysts are superior  
2 only with respect to large firms, and then only for short periods of time. This exhaustive  
3 study reviews previous historical research going back several decades, uses tens of  
4 thousands of data points, and indicates that previous research either overstated analysts'  
5 abilities or never claimed that they were completely superior to time-series data.<sup>2</sup> Some  
6 studies go even further and claim that, for certain periods, the results run directly counter  
7 to analysts' recommendations. For example, Dr. William E. Baker of San Diego State  
8 University and his colleague, Mario Ramos, found stocks with Buy ratings that they studied  
9 for the period 1998-2005 underperformed those with Hold and Sell ratings.<sup>3</sup>

10 There are several other studies that indicate analysts are far from perfect; however,  
11 witness D'Ascendis contends that investors are indifferent to whether analysts are right,  
12 for he states that, "...it does not really matter what the level of accuracy of those analysts'  
13 forecasts is well after the fact. What is important is that they reflect widely held  
14 expectations influencing investors at the time they make their pricing decisions and hence  
15 the market prices they pay." [D'Ascendis rebuttal, p.5, lines 24-27] Further, witness.  
16 D'Ascendis states that analysts' accuracy is unknowable because, "Investors have no prior  
17 knowledge of the accuracy of any forecasts available at the time they make their investment  
18 decisions, as that accuracy only becomes known after some future period of time has  
19 elapsed." [D'Ascendis rebuttal, p.6, lines 21-23] Thus, according to witness D'Ascendis,  
20 investors do not care if analysts have made errors in the past, even in the very recent past.

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<sup>2</sup><https://care-mendoza.nd.edu/assets/152184/bradshaw.pdf>

<https://care-mendoza.nd.edu/assets/152185/bradshawpaper.pdf>

<sup>3</sup>Roger K. Loh and G. Mujtaba Mian, "Do accurate earnings forecasts facilitate superior investment recommendations?" Journal of Financial Economics, Volume 80, Issue 2, May 2006, Pages 455-483.

He would have us believe that investors have total faith in analysts' predictions, despite prefacing the sentence previously quoted with, "Investors are also aware of the accuracy of past forecasts, whether for EPS or DPS growth, or for interest rate levels." [D'Ascendis rebuttal, p.6, lines 20-21]

**Q. DO YOU INCLUDE ANALYSTS' PREDICTIONS IN YOUR ANALYSIS?**

**A.** Yes. I use Value Line estimates for four (4) measures of growth. Indeed, half of my Discounted Cash Flow (“DCF”) result for growth is based upon these estimates.

**Q. DOES COMPANY WITNESS D'ASCENDIS USE HISTORICAL DATA IN HIS ANALYSIS?**

**A.** Yes. Company witness D’Ascendis uses historical data which is a contradiction to his assertion that only analysts’ estimates should be used. Witness D’Ascendis’ CAP-M and especially, the PRPM, are based upon a large amount of historical data.

**Q. PLEASE DISCUSS WHY EPS SHOULD NOT BE THE SOLE FACTOR IN A DCF ANALYSIS.**

A. EPS should not be the sole factor in a DCF analysis because earnings begin with sales and the disposition of earnings involves paying dividends and retaining earnings, which increases book value. Because dividend payments are the basis for the DCF model, to ignore dividend payments is to ignore the fundamental assumption of the DCF Model. Witness D'Ascendis seems to rely upon a quotation from Jeremy Siegel to insist upon the exclusive use of EPS: "It is earnings per share (EPS) that is important to Wall Street because per-share data, not aggregate earnings or dividends are the basis of investor returns." [D'Ascendis rebuttal p. 6, lines 16-18.]. I use per-share data for three (3) of my

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four (4) indicators of growth and I use the change in sales for the fourth. In the long run, without growing sales, there is no growth in EPS. Moreover, EPS growth may falter and Dividends per Share (“DPS”) growth and Book Value per Share (“BVPS”) may temporarily surpass it. The main purpose I have in including all these measures is to smooth out temporary variations. In effect, my use of indicators of growth other than EPS serves to indicate better what long-term EPS growth will be.

**Q. DOES WITNESS D'ASCENDIS INCORPORATE DATA OTHER THAN EPS IN HIS ANALYSES?**

A. Yes. Witness D'Ascendis incorporates total returns on investments in both his CAP-M and his PRPM. Total returns result from the appreciation of stock prices and from dividend yield. Without growth in DPS, dividend yield cannot keep up with increases in stock price.

**Q. WHAT IS THE MAIN DIFFERENCE BETWEEN YOUR ANALYSIS AND WITNESS D'ASCENDIS'S ANALYSIS RELATED TO MARKET RETURN?**

A. Witness D'Ascendis asserts my analysis should have incorporated returns weighted by the market capitalization of firms. This contradicts his assertion that investors expect a small company premium. Furthermore, the incorporation of returns weighted by market capitalization would violate the construct of deciles in the first place, even if they are not true deciles. "The 'Market'" figure of 9.8% referenced by witness D'Ascendis [D'Ascendis rebuttal p. 8, line 1] is very close to the capitalization-weighted average geometric annual return in Stocks, Bonds, Bills, and Inflation ("SBBBI") and effectively disregards both the construct of having capitalization breaks and emphasizing small

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**Q. WHAT IS YOUR RESPONSE TO WITNESS D'ASCENDIS'S ASSERTION THAT YOU ERRED IN USING THE GEOMETRIC MEAN?**

Compounding is one of the most powerful considerations in finance and investment. The geometric mean or Compound Annual Growth Rate (“CAGR”) recognizes this fact, but the simple annual average or arithmetic mean ignores compounding and can even mislead investors. Every year or period involves a change, which results in a new starting point, sometimes called the “base” or “basis” for the next year’s calculation of return. The geometric mean or CAGR recognizes this fact, but the arithmetic mean does not. In essence, the simple average combines the average change starting from different bases and treats them as though they started from the same base. Investors care whether they are getting a 10% increase in \$100 versus a 10% increase in \$1,000. The example below demonstrates that the simple/arithmetic annual average does not reflect the changing base:

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*Table 1: Example of the Impact of Arithmetic Mean v. Geometric Mean*

Starting amount:	\$100	
% change	*75%	(*1.75)
Ending amount, year 1:	\$175	
% change	100%	(*2.00)
Ending amount, year 2	\$350	
% change	-100%	*(0.00)
Ending amount, year 3	\$0	
Average change = $(75\% + 100\% - 100\%) / 3 = 25\%$		
BUT applying this average does not give us the actual result:		
Starting amount:	\$100	
% change	*125%	*(1.25)
Ending amount, year 1:	\$125	
% change	*125%	*(1.25)
Ending amount, year 2	\$156	
% change	*125%	*(1.25)
Ending amount, year 3	\$195	

This example illustrates how misleading the arithmetic mean of annual average changes can be and the possibility that investors can lose all their money. Certainly, in the example above, an investor who expected to have \$195 would be disappointed to discover that the actual return was zero and all the original investment was gone, so there was no return of the starting investment. In fact, unless the percentage change is the same every year, the simple average will always be larger than the geometric mean. Over long periods of time, as an investment grows through compounding, the chances grow ever larger that higher percentage returns on lower starting amounts will be averaged in with lower percentage returns on higher amounts.

Thus, for a long period of data, the CAGR or geometric mean is appropriate, whereas the arithmetic mean inflates returns. Investment advisors are aware that CAGR

1 is superior. Consider this quotation from advice from Buckingham Advisors entitled “The  
2 Perils of Owning Individual Stocks”:

3 While more than 71% of individual stocks have a positive arithmetic  
4 average return over their full life, only a minority (49.2%) of common  
5 stocks have a positive lifetime holding-period return, and the median  
6 lifetime return is -3.7%. This is because of volatility and the difference in  
7 arithmetic (annual average) returns versus geometric (compound or  
8 annualized) returns. For example, if a stock loses 50% in the first year and  
9 then gains 60% in the second, it has a positive arithmetic return but has  
10 actually lost money (20%) and has a negative geometric return.<sup>4</sup>  
11

12 Although witness D’Ascendis quotes SBBI in his rebuttal, the quotation referenced  
13 in his rebuttal treats the “expected,” rather than the current Equity Risk Premium (“ERP”)  
14 in order to support the arithmetic mean. An earlier version of the book, on page 59 of the  
15 1982 Edition of SBBI stated:

16 The arithmetic mean historical return on a component is used in  
17 making one-year forecasts, since the arithmetic mean accurately represents  
18 the average performance over a one-year period. Over a long forecast  
19 period, however, the geometric mean historical return represents average  
20 performance over the whole period (stated on an annual basis). Therefore,  
21 we input the arithmetic mean for a one year forecast, the geometric mean  
22 for the twenty year forecast and intermediate values for two, three, four, five  
23 and ten year forecasts.  
24

25 Dr. Aswath Damodaran, an expert in finance at New York University, addresses  
26 this issue quite forcefully. While acknowledging some analysts and academics argue for  
27 the arithmetic mean, he reasons:

28 ...There are, however, strong arguments that can be made for the  
29 use of geometric averages. First, empirical studies seem to indicate that  
30 returns on stocks are negatively correlated over time. Consequently, the  
31 arithmetic average return is likely to over state the premium. Second, while

<sup>4</sup> Downloaded 02/28/2018 from <http://buckinghamadvisor.com/the-perils-of-owning-individual-stocks/>



1 **Q. EXPLAIN HOW SURVIVORSHIP BIAS INTERACTS WITH THE LONG-TERM**  
2 **BEHAVIOR OF STOCKS SO AS TO MAKE USING THE ECAP-M**  
3 **INAPPROPRIATE.**

4 **A.** A great deal has been made of small companies' bringing higher returns than  
5 expected by predictions based upon  $\beta$ . Survivorship Bias is the most plausible explanation  
6 for this unexpected result, although another explanation may be that the time horizon used  
7 is too short. Like volatility as a predictor of returns, the ECAP-M suffers from what may  
8 be called the "Level of Analysis" problem: the tendency to impose market wide trends  
9 upon individual stocks. Thus, although small companies as a class may bring more return,  
10 many members of that class may bring a low return precisely because their risk has led to  
11 loss or dramatic failure.

12 In any event, there is already a compensation for small companies built into many  
13  $\beta$ s provided by commercial services. Value Line's  $\beta$ s, the ones I use, provide for  
14 companies' regressing to the mean – that is, tending to turn back toward the overall market  
15 after deviating from it. The effect of this adjustment is to adjust lower  $\beta$ s toward that  
16 overall market return. By raising the raw  $\beta$  of low- $\beta$  stocks, adjustments such as Value  
17 Line's in effect raise their predicted return. To make a larger or further adjustment is to  
18 double count risk. As for small companies with high  $\beta$ s, although collectively they may  
19 outpace the market, this is logically explainable by Survivorship Bias, which I have already  
20 discussed.

**Q. DOES  $\beta$  MEASURE ALL RISKS AND IS WITNESS D'ASCENDIS CORRECT IN HIS CRITICISM OF YOUR COMPARABLE EARNINGS MODEL (“CEM”) ANALYSIS?**

A. No.  $\beta$  measures systematic, non-diversifiable risk. Under portfolio theory, all other risks are diversifiable, so companies do not have to compensate investors for risk and the market will not compensate for risk. CAP-M is based upon the concept of portfolios, so an investor can neutralize the risks particular to a company, or “non-systematic risk,” by investing in other companies with different risks. Similarly, my CEM analysis uses large numbers of companies, so risk is diversified and attempts to introduce other adjustments is unnecessary and inaccurate.

**Q. IS YOUR CEM METHOD NOT MARKET BASED AND IN CONFLICT WITH YOUR OTHER ANALYSES?**

A. No. Witness D’Ascendis states that “book value by itself is not a valid measure of the investor required return.” Contrary to that assertion, The Cost of Capital – A Practitioner’s Guide prepared for the Society of Utility and Regulatory Financial Analysts, however, is quite clear:

The comparable earnings method is designed to measure the returns expected to be earned on the original book value of similar risk enterprises. Thus, this method provides a direct measure of the fair return, since it translates into practice the competitive principle upon which regulation rests.

The comparable earnings method normally examines the experienced and/or projected returns on book common equity. The logic for returns on book equity follows from the use of original cost rate base regulation for public utilities, which uses a utility's book common equity to determine the cost of capital. The cost of capital is, in turn, used as the fair rate of return which is then applied (multiplied) to the book value of rate

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1 base to establish the dollar level of capital costs to be recovered by the  
2 utility.<sup>6</sup>  
3

4 Most ROE witnesses do not literally look at actual returns to stock holders in the  
5 form of the stocks they sell at given prices, nor do they look just at retained earnings and  
6 equity flotations for increased corporate value. The only figure that is actual money in the  
7 stockholder's pocket is dividends, until the stock is sold. Most remaining analyses use  
8 proxies. Witness D'Ascendis commends EPS gains but that is not a gain to a stockholder  
9 unless the EPS gains translate into stock price gains that the stockholder realizes by selling  
10 stock. I use growth in book value as a proxy for growth in fair market returns. Over time,  
11 circumstances may change the relationship between book value and market value, but the  
12 same could be said for EPS.

13 **Q. WHY DID YOU NOT USE THE BOOK VALUE PER SHARE FROM YOUR DCF**  
14 **CALCULATION FOR THE CEM ANALYSIS?**

15 **A.** First, the BVPS data used in my DCF analysis is that of companies composed of  
16 regulated utilities, whereas, as is common practice, I use non-utilities in my CEM. Second,  
17 the purpose of using non-regulated companies for a CEM analysis is to take companies  
18 with entirely different business profiles, such as productivity, and adjust them so that they  
19 are comparable to regulated utilities. One would not expect a non-utility to yield the same  
20 return from investments as a utility. Following the Great Recession, however,  
21 manufacturing non-utilities whose stocks varied with the market in a manner comparable  
22 to how water utility stock varied suffered an outright decline in Net Equity, as shown on

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<sup>6</sup> David C. Parcell, The Cost of Capital – A Practitioner's Guide, prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition, pp.115-116.



A. I strongly disagree with witness D'Ascendis "corrected result." The following table, from Standard & Poor's, indicates in its "Annualized Total Returns" column why his results and critique should not be followed.

**Table 2: S&P 500 SECTOR RETURNS, RANGE: 2/28/2018 -- 10/9/2001**

<b>Sector</b>	<b>ANNUALIZED STOCK RETURN</b>	<b>ANNUALIZED TOTAL RETURN</b>	<b>% DIVIDENDS INCREASED RETURN</b>	<b>STOCK RETURN</b>	<b>TOTAL RETURN</b>
Energy	5.24%	7.65%	45.85%	131.01%	234.46%
Materials	7.21%	9.65%	33.79%	213.08%	352.50%
Industrials	6.42%	8.78%	36.76%	177.34%	297.35%
Consumer Discretionary	8.86%	10.39%	17.25%	301.96%	405.14%
Consumer Staples	5.90%	8.67%	47.07%	155.79%	290.91%
Health Care	5.82%	7.74%	33.03%	152.62%	239.28%
Financials (incl RE pre-9/19/16)	2.42%	4.68%	93.62%	47.92%	111.64%
Information Technology	9.17%	10.31%	12.36%	321.27%	398.99%
Telecom. Services	-1.20%	3.24%	370.28%	-17.92%	68.56%
Utilities	2.66%	6.73%	153.19%	53.73%	190.87%
Real Estate	3.86%	8.21%	112.82%	85.98%	264.51%
<b>S&amp;P 500</b>	<b>5.92%</b>	<b>8.08%</b>	<b>36.40%</b>	<b>156.81%</b>	<b>257.30%</b>

Source: <https://us.spindices.com/indices/equity/sp-500> (under “Additional Information” dropdown as “S&P Market Attributes Web File”)

As this table shows, the S&P 500 has not produced returns approaching those that witness D’Ascendis believes I should have recommended. Moreover, this sort of return is not confined to stocks with large capitalizations. Buckingham Advisors’ web article states “Just 37.4% of small stocks have holding period returns that exceed those of the one-month Treasury bill.”<sup>7</sup> In other words, 62.6% of small stocks have negative ERP’s.

My results fall within the zone of reasonableness indicated by actual total returns. I again commend to the Commission my ROE of 9.08%.

**Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

**A.** Yes.

<sup>7</sup> Downloaded 02/28/2018 from <http://buckinghamadvisor.com/the-perils-of-owning-individual-stocks/>



1 **BY MS. BELSER:**

2 **Q** Mr. Schellinger, good morning.

3 **A** [SCHELLINGER] Good morning.

4 **Q** Please state your name and occupation, for the  
5 Commissioner.

6 **A** [SCHELLINGER] My name is Matthew Schellinger. I'm  
7 employed by the South Carolina Office of Regulatory  
8 Staff as a regulatory analyst.

9 **Q** And did you prefile 17 pages of direct testimony in this  
10 case, on March 12th?

11 **A** [SCHELLINGER] Yes, I did.

12 **Q** Do have any changes, edits, or corrections to that  
13 prefiled direct testimony?

14 **A** [SCHELLINGER] No, I do not.

15 **MS. BELSER:** Mr. Chairman, I would ask that  
16 Mr. Schellinger's direct prefiled testimony be  
17 entered into the record as if given orally.

18 **CHAIRMAN WHITFIELD:** Mr. Schellinger's  
19 prefiled direct testimony will be entered into the  
20 record as if given orally from the stand.

21 **MS. BELSER:** Thank you.

22 **BY MS. BELSER:**

23 **Q** Did you also prepare 40 pages of exhibits, which were  
24 attached and included with your direct testimony, and  
25 which were marked as Exhibits MPS-1 through MPS-7?

1     **A**     [SCHELLINGER] Yes, I did.

2     **Q**     Are there any changes, edits, or corrections to any of  
3             those exhibits?

4     **A**     [SCHELLINGER] Yes. There's a – the same correction that  
5             was proposed yesterday on the tariff.

6     **Q**     Could you refer us to the exhibit number?

7     **A**     [SCHELLINGER] I'd be happy to. Give me just one second.  
8             It's going to be Exhibit MPS-5, page 8-of-10, in Section D,  
9             the toxic and pretreatment effluent guidelines.

10    **Q**     And what is the correction, please?

11    **A**     [SCHELLINGER] The correction is to remove the second  
12             "not" in the first sentence.

13    **Q**     And would you read just that line, as corrected, please?

14    **A**     [SCHELLINGER] "The utility will not accept or treat any  
15             substance or material that has been defined by the  
16             United States EPA or South Carolina Department of Health  
17             and Environmental Control as a toxic pollutant."

18    **Q**     With that correction, are your exhibits now correct?

19    **A**     [SCHELLINGER] Yes.

20             **MS. BELSER:** Mr. Chairman I would ask that Mr.  
21             Schellinger's Exhibits MPS-1 through MPS-7, as  
22             amended from the stand, be entered into the record  
23             of this case as the next hearing exhibit.

24             **CHAIRMAN WHITFIELD:** Mr. Schellinger's  
25             Exhibits MPS-1 through MPS-7 will be entered in as

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Hearing Exhibit No. 15.

[WHEREUPON, Hearing Exhibit No. 15 was  
marked and received in evidence.]

**MS. BELSER:** Thank you, Mr. Chairman.

**BY MS. BELSER:**

**Q** Have you also prepared 11 pages of revised surrebuttal  
testimony, which was filed with the Commission on or  
about March 30th?

**A** [SCHELLINGER] Yes, I did.

**Q** Are there any changes, edits, or corrections to your  
revised surrebuttal testimony?

**A** [SCHELLINGER] No, there are not.

**MS. BELSER:** Mr. Chairman, I'd request that  
Mr. Schellinger's revised surrebuttal testimony be  
entered into the record of this case as if given  
orally.

**CHAIRMAN WHITFIELD:** Mr. Schellinger's revised  
surrebuttal exhibits – excuse me. His surrebuttal  
testimony will be entered into the record as if  
given orally from the stand.

**MS. BELSER:** Thank you.

**BY MS. BELSER:**

**Q** And, Mr. Schellinger, did you prepare or cause to be  
prepared 65 pages of exhibits, which were filed along  
with your revised surrebuttal testimony, and which are

1 marked as Surrebuttal Exhibit MPS-1 through Exhibit  
2 MPS-5?

3 **A** [SCHELLINGER] I believe they're marked Revised  
4 Surrebuttal Exhibit MPS-1 through MPS-5, but, I did.

5 **Q** Thank you for that correction. Are there any changes,  
6 edits, or corrections to any of those exhibits?

7 **A** [SCHELLINGER] No, there are not.

8 **MS. BELSER:** Mr. Chairman, I request that Mr.  
9 Schellinger's Revised Surrebuttal Exhibits MPS-1  
10 through MPS-5 be admitted into the record of this  
11 case as the next composite hearing exhibit.

12 **CHAIRMAN WHITFIELD:** Okay, Ms. Belser. We  
13 will enter Mr. Schellinger's Revised Surrebuttal  
14 Exhibits MPS-1 through MPS-5. We will enter that  
15 in as the next hearing exhibit, which is Hearing  
16 Exhibit No. 16.

17 [WHEREUPON, Hearing Exhibit No. 16 was  
18 marked and received in evidence.]

19 **MS. BELSER:** Thank you.

20 **BY MS. BELSER:**

21 **Q** Mr. Schellinger, did you prepare a summary of your  
22 direct and revised surrebuttal testimony?

23 **A** [SCHELLINGER] I did.

24 **Q** And would you present that to the Commission, at this  
25 time?

1     **A**     [SCHELLINGER] I'd be happy to.

2             Good morning, Mr. Chairman and members of the  
3     Commission. I thank you for the opportunity to provide  
4     you with ORS's review of Carolina Water Service's  
5     request for an adjustments of rates and charges for  
6     water and sewer service.

7             My testimony addresses ORS's review of CWS's  
8     compliance with Commission Rules and Regulations,  
9     performance bond requirements, and customer-growth  
10    calculations. I address ORS's adjustments to test-year  
11    revenues and the revenues as proposed by the company –  
12    specifically, adjustments for the transfer of customers  
13    in the I-20 sewer system, a correction to consumption  
14    data for falsified meter reads, and the company's  
15    attempt to normalize consumption data in a period with  
16    13 bills, and understated billing units due to  
17    insufficient vacancy surveys. My testimony also  
18    addresses the company's request to change certain non-  
19    recurring charges and tariff language, ORS' position on  
20    the open non-revenue water deferral account, and an  
21    adjustment to purchased-water expense related to high  
22    water loss systems.

23            The Commission requested ORS investigate the issues  
24    raised by Dancing Dolphin Company, which I address in  
25    detail in my direct testimony. I ran an analysis on the

1       inflow-and-infiltration issues on the Beaufort system  
2       and determined there is likely to be some small amount  
3       of inflow and infiltration into the collection system  
4       attributed to rainfall. During our on-site inspection  
5       of the system, I did not notice any obvious indications  
6       of the cause of the inflow and infiltration into the  
7       sewer system.

8               Additional analysis was done on the billing for  
9       Dancing Dolphin Properties, and I did not find any  
10       instances in which the company appeared to be  
11       overcharged. It is my recommendation that CWS conduct  
12       an inflow-and-infiltration study and a cost-benefits  
13       analysis to determine what corrective action should be  
14       taken on that system.

15              My testimony and revised surrebuttal testimony  
16       address ORS's position on financial and legal costs  
17       associated with the litigation expenses for the I-20  
18       sewer system. My revised surrebuttal testimony also  
19       addresses ORS's position on late fees and additional  
20       engineering costs incurred at the Friarsgate Wastewater  
21       Treatment Facility related to DHEC consent orders. My  
22       revised surrebuttal testimony addresses adjustments and  
23       changes in the tariff for contributions in aid of  
24       construction, in order to account for changes in the  
25       federal tax rate associated with the Tax Act. My

1 revised surrebuttal also addresses ORS's position on the  
2 creation of a regulatory liability for the estimated  
3 reduction to the company's cost of service in the  
4 currently approved rates.

5 **Q** Mr. Schellinger, would you further explain your  
6 position, ORS's position, on the W.K. Dixon invoices  
7 related to the Friarsgate consent order?

8 **A** [SCHELLINGER] ORS recommends the disallowance of the  
9 W.K. Dixon invoices directly related to the Friarsgate  
10 consent order on several grounds. First, it is the  
11 company's obligation to provide safe, reliable, and  
12 high-quality utility service in compliance with federal,  
13 state, and local laws and regulations, and in return  
14 they receive compensation for and a return on prudently  
15 incurred investments. The DHEC consent order documents  
16 that the company did not adequately operate and maintain  
17 the Friarsgate Wastewater Treatment Facility, to the  
18 point where DHEC felt it necessary for the company to,  
19 quote, "utilize the services of an independent certified  
20 operator under the direction of a South Carolina  
21 Registered Professional Engineer, to operate the  
22 wastewater treatment facility," end quote.

23 Through PSC-approved rates, the customers have  
24 compensated the company to adequately maintain and  
25 operate the wastewater treatment facility, and the

1 customers should not be required to pay for those same  
2 services a second time. The shareholders should be  
3 required to fund those efforts.

4 Second, the documentation provided on the W.K.  
5 Dixon invoices did not provide adequate detail as to the  
6 specific work performed and when it was performed. W.K.  
7 Dixon, as a contractor, does a considerable amount of  
8 work for the utility, of which we do not dispute, nor  
9 was it disallowed in this case. W.K. Dixon performed  
10 additional work in relation to engineering services for  
11 the Friarsgate EQ basin, which was included as part of  
12 the work-in-progress for the EQ basin project. ORS has  
13 not proposed to disallow any of those other costs.

14 ORS notified the company on March 7, 2018, as to  
15 the deficiencies in documentation related to these DHEC  
16 consent orders' invoices, and the company did not  
17 provide any further clarification or follow-up to the  
18 work performed beyond the rebuttal testimony of CWS  
19 Witness Cartin.

20 Third, the work, as described by the DHEC consent  
21 order, relates to, quote, "an updated operations-and  
22 maintenance manual with standard operating procedures  
23 and check lists for the operation of all aspects of the  
24 wastewater treatment facility, treatment processes, and  
25 sludge management, to include, at a minimum, process



1 control observations, testing schedules, bench sheets,  
2 log entries, et cetera, as prescribed by a South  
3 Carolina Registered Professional Engineer," end quote.

4 This list of items in the DHEC consent order  
5 appears to all be directly related to operations and  
6 maintenance, and even taking into account the fact that  
7 ratepayers have already paid for the company for  
8 providing these very basic necessities towards running  
9 the plant, the W.K. Dixon invoices included in Revised  
10 Surrebuttal Exhibit MPS-3 should not be included in rate  
11 base upon which CWS will earn a return.

12 **Q** Could you describe ORS's position on the 20 litigation  
13 costs associated with the *Riverkeeper versus Carolina*  
14 *Water Service* case?

15 **A** [SCHELLINGER] ORS recommends the disallowance of the  
16 I-20 litigation costs associated with the *Riverkeeper*  
17 *versus Carolina Water Service* case. As stated  
18 previously, the company has an obligation to provide  
19 safe, reliable, and high-quality service, in compliance  
20 with federal, state, and local laws and regulations, in  
21 exchange for the rates paid to CWS.

22 Based on my non-lawyer reading of the original  
23 order, issued by the federal court, the company violated  
24 its effluent limitations 23 times since 2009, violated  
25 its permit for over 17 years, failed to undertake any

1 attempt to comply with the permit between 2002 and 2014,  
2 and will need to undertake costs to correct the problems  
3 caused by its failure to fulfill its permit  
4 requirements. At the same time, the judge found that  
5 the company had received an economic benefit for the  
6 I-20 plant between 2009 and 2013, on an average of  
7 \$689,000 per year.

8 The company has been fully compensated – sorry.  
9 The company has been compensated to provide for its  
10 customers' appropriate service, and has failed to do so  
11 in relation to the I-20 sewer plant, and when faced with  
12 the litigation costs of defending themselves, believes  
13 that ratepayers have received a benefit for the  
14 mismanagement at that plant.

15 ORS recommends that these costs be disallowed and  
16 the shareholders be responsible for the litigation costs  
17 associated with the federal court case between the  
18 Riverkeeper and CWS.

19 **Q** Yesterday, there was testimony that the \$1.5 million  
20 fine that was in that I-20 order from Judge Seymour had  
21 been vacated. Did that order overturn any of the  
22 violations that you just listed, that were found in that  
23 order?

24 **A** [SCHELLINGER] Not that I'm aware of.

25 **Q** Would you describe ORS's position on the I-20 litigation

1 costs associated with the condemnation proceedings with  
2 the Town of Lexington?

3 **A** [SCHELLINGER] Sure. ORS recommends the costs associated  
4 with representing the utility in condemnation  
5 proceedings with the Town of Lexington be placed into a  
6 regulatory asset to be reviewed for potential recovery  
7 in a future rate proceeding, once there's an order in  
8 that case and all costs, as well as potential  
9 recoveries, are known.

10 **Q** And would you describe ORS's position on the excess tax  
11 collection benefit to the ratepayers?

12 **A** [SCHELLINGER] ORS proposes the creation of a regulatory  
13 liability account, consisting of the impact of the  
14 federal income tax change on the company's last approved  
15 cost-of-service. A portion of the company's approved –  
16 previously approved rates is associated with the direct  
17 recovery of federal income tax rate at 35 percent. On  
18 January 1, 2018, that tax rate was reduced to 21  
19 percent. ORS recommends that this regulatory liability  
20 be amortized over a three-year period, the same as the  
21 amortization of rate-case expenses and the unprotected  
22 ADIT, in order to provide timely benefit to customers  
23 without placing an undue burden on the company.

24 ORS is not requesting a refund in this case, and is  
25 proposing a reduction in the company's revenue

1 requirement in a purely prospective manner.

2 **Q** Does that conclude your summary?

3 **A** Yes, it does.

4 **MS. BELSER:** Thank you.

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23 [PURSUANT TO PREVIOUS INSTRUCTION, THE

24 PREFILED DIRECT TESTIMONY OF MATTHEW P.

25 SCHELLINGER FOLLOWS AT PGS 689-706]

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY & EXHIBITS**  
**OF**  
**MATTHEW P. SCHELLINGER II**  
**MARCH 12, 2018**



**DOCKET NO. 2017-292-WS**

**Application of Carolina Water Service, Incorporated for  
Approval of an Increase in Its Rates for Water and Sewer  
Services**

## DIRECT TESTIMONY AND EXHIBITS OF

**MATTHEW P. SCHELLINGER II**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2017-292-WS**

**IN RE: APPLICATION OF CAROLINA WATER SERVICE,**

**INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR**

## WATER AND SEWER SERVICES

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

A. My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Regulatory Analyst.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A. I received a Bachelor of Science Degree with a major in Accounting from the University of South Florida in 2012. I received a Master of Business Administration with a focus in Management and Strategy from Western Governors University in 2016. From 2007 to 2013, I was employed as a controller for an insurance agency. In that capacity, I performed general corporate accounting functions on a daily and monthly basis. In February 2013, I began my employment with ORS as an Auditor. In May 2016, I joined the Utility Rates and Services Division as a Regulatory Analyst. I have previously testified

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**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

- CWS’s compliance with the PSC rules and regulations;
- ORS adjustments to Test Year and proposed revenue;
- ORS customer growth calculation;
- CWS’s request to change certain non-recurring charges and tariff language;
- CWS’s non-revenue water deferral account;
- The transfer of customers in the I-20 sewer service territory to the Town of Lexington;
- ORS’s adjustment to purchased water expense;
- ORS’s recommendation related to the Utility System Improvement Rate (“USIR”);
- ORS’s investigation related to the Forty Love Point sewer issues; and
- ORS’s investigation of the Dancing Dolphin complaint.

**Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS TESTIMONY AND ACCOMPANYING EXHIBITS?**

A. Yes, my testimony and the attached exhibits detail ORS's findings and recommendations.





1     **A.**             Exhibit MPS-1 provides a summary of the Business Office Compliance Review  
2             completed by ORS and a summary of the water supply/distribution and wastewater  
3             collection/treatment systems inspected by ORS on February 20, 22, and 23, 2018.

4             **Water Supply/Distribution System**

5             CWS currently provides water supply and distribution-only services to its  
6             residential and commercial customers. Water is provided to customers by CWS-operated  
7             wells or by third-party water providers. During the Test Year, CWS purchased water to  
8             distribute to its customers from governmental entities including the City of West Columbia,  
9             City of Columbia, Town of Lexington, Lexington Joint Municipal Water and Sewer  
10            Commission, Hammond Water District, Sandy Springs Water District, West Anderson  
11            Water District, Electric City Utilities, City of Rock Hill, Starr-Iva Water & Sewer District,  
12            and York County. There are one hundred and five (105) water supply and distribution-only  
13            systems with active South Carolina Department of Health and Environmental Control  
14            (“DHEC”) Drinking Water Permits operated by CWS. Required operator logs were kept at  
15            all facilities inspected by ORS. As required by the Commission’s regulations, general  
16            housekeeping items, including system entry points, access roads and signage, observed by  
17            ORS during the inspection were satisfactory. Potable water and irrigation consumption is  
18            metered to all customers. CWS provides fire protection service to customers in the Lake  
19            Wylie service area, the Oakwood Baptist Church, Washington Heights, and Hidden Valley  
20            Mobile Home Park located in the I-20 service area.



- 1 • 16-023-W – Administrative Order – I-20 – August 1, 2016
- 2 • 16-039-W – Friarsgate – December 22, 2016
- 3 • 17-001-W – Peachtree – March 2, 2017
- 4 • 17-060-W – Friarsgate – July 31, 2017
- 5 • 17-065-W – Foxwood – August 4, 2017

6 CWS paid \$103,340 in penalties to DHEC since the last rate case in 2015 (Docket  
7 No. 2015-199-WS). The Company did not request rate recovery for these penalties.

8 **Q. DOES ORS RECOMMEND ADJUSTMENTS TO THE TEST YEAR WATER AND**  
9 **WASTEWATER BILLING UNITS USED IN THE APPLICATION BY CWS?**

10 **A.** Yes. ORS completed a comprehensive review of CWS's customer water and  
11 wastewater billing units for the Test Year. ORS adjustments address the following issues  
12 detected in the Application and Test Year:

- 13 1) Normalized water consumption;
- 14 2) Errors made in meter reading; and,
- 15 3) Understated water and sewer billing units.

16 **Q. PLEASE EXPLAIN ORS'S RECOMMENDATION TO THE COMPANY'S**  
17 **REQUEST TO NORMALIZE WATER CONSUMPTION DATA.**

18 **A.** During ORS's review of the Application, ORS discovered that the Company  
19 normalized water consumption data used to compute Test Year revenue and proposed  
20 revenue in Service Territory 1 and Service Territory 2. In the Application, CWS used a  
21 normalized water consumption value of 905,352,266 gallons. Instead of using the actual  
22 Test Year water consumption data for all customers, CWS calculated an average water

ORS recommends Test Year water consumption be based on actual water sales to customers of 927,270,314 gallons, as reflected on Exhibit MPS-2.

**A.** CWS customers contacted ORS in 2017 related to higher than normal monthly bills. In response to ORS's investigation, CWS identified that a meter reader, working for a subcontractor, falsified meter reads. The falsification of meter reads resulted in CWS billing customers in Service Territory 1 based on inaccurate data. In accordance with S.C.

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Code Ann. Regs. 103-733.2 and 103-733.3, CWS determined the time period for the falsified meter reads as being April 2017 through August 2017.

CWS issued corrected bills to customers in October 2017, which is outside of the Test Year. The meter reading error in Service Territory 1 reduced Test Year water consumption and CWS did not propose an adjustment or address the issue in its Application. ORS recommends an additional increase to Test Year water consumption for Service Territory 1 of 15,186,238 gallons to correct the impacts of the meter read error. This recommendation is reflected in Exhibit MPS-2.

**Q. PLEASE EXPLAIN ORS'S ADJUSTMENT TO TEST YEAR AND PROPOSED WASTEWATER SERVICE BILLING UNITS.**

**A.** During ORS's site visits in late February 2018, ORS verified a sample of premises to confirm CWS's billing record accuracy. Specifically, ORS verified if occupied premises receiving sewer service are listed as inactive in the CWS billing system; if the premise is occupied, CWS's billing units for sewer service may be inaccurate, and the Company's Test Year sewer service revenues understated.

Of the thirteen (13) inactive premises ORS inspected in the Friarsgate subdivision in Lexington County, all thirteen (13) premises were occupied and had not been billed by CWS during the Test Year. In addition, during the ORS inspection in Beaufort County, four (4) premises in the Palmetto Apartments subdivision were listed as inactive in CWS billing records and had not received a bill from the Company during the Test Year; however, three (3) premises were occupied during the ORS inspection.

ORS recommends an adjustment to Test Year and proposed sewer service revenue to include the premises ORS determined to be active during the ORS inspection.

Upon further review of CWS billing records, ORS identified additional premises that were not billed accurately by CWS. ORS's adjustment imputes revenue for a total of forty-seven (47) sewer customers and six (6) water customers. This adjustment is reflected in Exhibit MPS-2.

Based on the ORS review, it appears the Company did not conduct thorough vacancy surveys of its sewer-only service territories to ensure the Company billed all of its customers. ORS recommends the Commission require CWS to re-institute the vacancy survey process required in Commission Order No. 2012-547.

**Q. PLEASE EXPLAIN THE TEST YEAR WATER AND WASTEWATER SERVICE REVENUE AMOUNTS COMPUTED BY ORS.**

A. Exhibit MPS-2 summarizes CWS's service revenues for the Test Year. ORS used CWS's current rates as approved by the Commission and proposed rates as reflected in the Application for each calculation. Exhibit MPS-2 provides a detail of the water and sewer service revenue, as adjusted by ORS, for each Service Territory 1 and 2 for water revenues, and combined Service Territory 1 and 2 for sewer revenues.

In summary, ORS calculated CWS's Test Year service revenue for residential and commercial water and wastewater operations, as adjusted, of \$20,235,927. For comparison purposes, ORS calculated CWS's proposed residential and commercial water and wastewater service revenues, as adjusted, of \$24,958,022. ORS did not factor customer growth into these service revenue comparisons.

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removal of all operations and maintenance expenses associated with the I-20 Sewer System. These adjustments are reflected in ORS Audit Exhibit ZJP-5.

**Q. WHAT IS ORS'S RECOMMENDATION RELATED TO THE FINANCIAL SERVICES AND LITIGATION COSTS ASSOCIATED WITH THE CONDEMNATION OF THE I-20 SEWER SYSTEM?**

**A.** ORS recommends the Company not be allowed to begin amortization of any litigation and financial services costs related to the I-20 sewer system. The condemnation has not been completed and a ruling has not been issued; therefore, it is unknown if a portion of the costs may be recovered through the condemnation proceeding. In addition, litigation costs, penalties and settlements related to other lawsuits and Federal Court decisions related to the I-20 sewer system should not be recovered from ratepayers.

**Q. PLEASE DESCRIBE ORS'S ADJUSTMENT TO PURCHASED WATER EXPENSE.**

**A.** ORS recommends an adjustment of \$16,095 to reduce Purchased Water expense for Service Territory 1 and 2 to limit non-revenue water expense to 10%. The ORS adjustment is reflected in ORS Audit Exhibit ZJP-5. According to data provided to ORS by CWS, the following subdivisions experienced greater than 10% non-revenue water during the Test Year:

- Hidden Lake subdivision - 39.48%
- Hill & Dale subdivision - 13.85%
- Lands End subdivision - 31.58%

**Q. WHAT IS ORS'S POSITION ON THE UTILITY SYSTEM IMPROVEMENT RATE ("USIR") AS PROPOSED BY THE COMPANY?**

ORS recommends the USIR and other alternative regulation and ratemaking methodologies be examined by the Commission in a separate proceeding upon petition of the interested water and wastewater utility. This would allow for a thorough examination of the risks and benefits to the ratepayer, the utility and economic development. In addition, alternative ratemaking methodologies may require amendment to current statutes and regulations.

**PLEASE DESCRIBE ORS'S INVESTIGATION OF THE ISSUES RAISED BY  
INTERVENOR TESTIMONY ON BEHALF OF FORTY LOVE POINT  
HOMEOWNERS' ASSOCIATION.**

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1     **A.**             According to ORS Consumer Service records, ORS became aware of a sewer issue  
2             impacting customers in the Forty Love Point subdivision in Lexington county in October  
3             2016. During periods of heavy rain, several homes including Mr. Dixon's home and Ms.  
4             King's home have experienced sewer odor and sewer back-ups in the collection system  
5             operated by CWS. Sewer treatment services are provided to CWS by Richland County.  
6             ORS requested CWS respond to Mr. Dixon's complaint. In November 2016, the Company  
7             hosted a meeting at the Forty Love Point pump station with DHEC and Richland County  
8             to discuss the operations of the collection system and the impact of heavy rains on the  
9             collection system. CWS initiated an engineering study to determine the causes and develop  
10            recommended solutions to the issues experienced by Mr. Dixon and Ms. King. During the  
11            period of the CWS engineering study, CWS monitored the weather and, with the  
12            permission of DHEC, initiated pump-and-haul operations during periods of heavy rain to  
13            eliminate the possibility of sewer back-ups.

14            In January 2017, ORS participated in a meeting with CWS, DHEC, engineers, Ms.  
15            King, and Mr. and Ms. Dixon to discuss CWS's action plan for correction of the sewer  
16            issue. As a result of that meeting, CWS conducted smoke testing in order to locate areas of  
17            inflow into the sewer collection system during high rain events and installed equipment  
18            and software to alert CWS to high levels in the system and track and chart the force main  
19            pressures from Richland County that influence the operations of the CWS collection  
20            system.

21            In September 2017, Ms. Dixon contacted ORS regarding a sewer back-up issue.  
22            The Company's response indicated that due to Hurricane Irma the subcontractor that

1 performs the pump-and-haul operations during heavy rain events was limited to one  
2 vacuum truck. CWS indicated it continued to analyze data gathered by its equipment and  
3 was in the process of completing its engineering study.

4 Mr. Dixon contacted ORS on January 29, 2018, regarding a sewer odor. ORS  
5 requested CWS respond to Mr. Dixon's complaint. Per CWS's response, CWS met with  
6 Mr. and Ms. Dixon and Mr. King on February 22, 2018 and settled on a path forward that  
7 involves CWS agreeing to upgrade and install pump tanks to eliminate future sewer back-  
8 ups. The upgrade and installation is expected to be complete during the month of March.

9 **Q. PLEASE DESCRIBE ORS'S INVESTIGATION OF THE ISSUES RAISED BY**  
10 **DANCING DOLPHIN, LLC, A BEAUFORT COMPANY.**

11 **A.** The Commission in its Order No. 2018-77, requested ORS investigate the issues  
12 raised in the Petition to Intervene by Dancing Dolphin, LLC. In response, ORS analyzed  
13 the impact of inflow on the collection system operated by CWS in Beaufort County. To  
14 facilitate ORS's analysis, ORS examined the purchased sewer bills rendered by BJWSA to  
15 CWS during the Test Year and analyzed the total gallons treated by BJWSA in comparison  
16 to the DHEC Contributory Loading Guidelines of three hundred (300) gallons per day per  
17 Single Family Equivalent. ORS also examined the rain amounts for the monthly billing  
18 periods to determine if the BJWSA total gallons treated and billed to CWS was impacted  
19 by rain volume.

20 From the ORS analysis, it appears there is a correlation between rain volumes and  
21 increased total gallons treated by BJWSA. This is an indicator of a potential inflow and  
22 infiltration issue in the sewer system. Exhibit MPS-7 provides the detail to support ORS's



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[PURSUANT TO PREVIOUS INSTRUCTION, THE  
PREFILED REVISED SURREBUTTAL TESTIMONY OF  
MATTHEW P. SCHELLINGER FOLLOWS AT PGS 708-719]



# **Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services**



**REVISED SURREBUTTAL TESTIMONY AND EXHIBITS OF**

**MATTHEW P. SCHELLINGER II**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2017-292-WS**

**IN RE: APPLICATION OF CAROLINA WATER SERVICE,**

**INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR**

**WATER AND SEWER SERVICES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) in the Utility Rates and Service Division as a Regulatory Analyst.

**Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?**

**A.** Yes. I filed direct testimony and seven (7) exhibits with the Public Service Commission of South Carolina (“Commission”) on March 12, 2018.

**Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL TESTIMONY?**

**A.** The purpose of my revised surrebuttal testimony is to respond to the rebuttal testimony filed by Carolina Water Service, Inc. (“CWS” or “Company”) witnesses Michael Cartin and Robert Hunter on March 19, 2018. Specifically, I will focus on the following areas:

ACCEPTED FOR FILING BY THE CLERK OF THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION ON 03/19/2018 AT 10:58 AM. FILED IN DOCKET NO. 2017-292-WS. BY: [Signature]

- 1) CWS's position on certain financial and legal costs associated with the I-20 sewer system;
- 2) CWS's position on additional engineering costs incurred as a result of a South Carolina Department of Health and Environmental Control ("DHEC") consent order regarding the Friarsgate Waste Water Treatment Facility ("WWTF");
- 3) CWS's position on the treatment of late fees associated with proposed revenue increases;
- 4) CWS's proposal to apply a tax multiplier for Contributions in Aid of Construction ("CIAC"); and,
- 5) Revenue attributed to the 35% federal tax rate recovered from customers after the enactment of the Tax Cuts and Jobs Act.

**Q. CWS CONTENDS CERTAIN FINANCIAL AND LITIGATION COSTS ASSOCIATED WITH THE I-20 SEWER SYSTEM SHOULD BE ALLOWABLE FOR RATE MAKING PURPOSES. HOW DO YOU RESPOND?**

**A.** ORS does not agree with CWS's characterization that financial and litigation costs related to the I-20 sewer system are reasonably incurred, prudent, or to the benefit of rate payers. The Company's Application includes a request to amortize these financial and litigation expenses which total \$998,606 over 66.67 years. In Audit Request #30, ORS requested the Company provide a detailed breakdown of the financial and litigation costs and to assign specific costs to each legal action. The Company's response is included as Revised Surrebuttal Exhibit MPS-1 and the Company did not directly allocate its financial

and litigation costs to each legal action. CWS identified the following legal actions as the basis for the financial and litigation expense to be amortized:

- Congaree River Keeper (“CRK”) vs. Carolina Water Service – U.S. Federal Court
- Town of Lexington v. CWS – condemnation of the I-20 sewer system
- Administrative Law Court (“ALC”) – DHEC denial of permit renewal for I-20
- ALC – Town of Lexington’s challenge to DHEC order relating to I-20 interconnection
- Carolina Water Service vs. EPA, Town of Lexington – U.S. Federal Court

ORS reviewed the expense invoices provided but was unable to directly assign specific financial and litigation costs to each legal action.

#### **ORS Position related to CRK vs CWS – U.S. Federal Court**

It is ORS’s position that the financial and litigation costs related to the CRK vs CWS U.S. Federal Court case should not be recovered from CWS ratepayers. The Order issued by the Court (Revised Surrebuttal Exhibit MPS-2) specified that CWS:

- 1) Violated its effluent limitations twenty-three (23) times since 2009;
- 2) Received an economic benefit for the I-20 plant between 2009 and 2013 on average of \$689,000 per year;
- 3) Violated its permit for over seventeen (17) years;
- 4) Failed to undertake any attempt to comply with the permit between 2002 and 2014;
- and,
- 5) Will need to undertake costs to correct the problems caused by its failure to fulfill the permit requirements.

1 Based on this Order, the Company did not operate the I-20 sewer system in  
2 accordance with permit requirements and the ratepayers should not be responsible for the  
3 costs associated with the Company's efforts to defend its actions in U.S. Federal Court.  
4 The Company did not demonstrate in its rebuttal testimony the specific ways the litigation  
5 and its outcome benefit its ratepayers.

6 **ORS Position related to Town of Lexington vs. CWS – condemnation of the I-20 sewer**  
7 **system**

8 The condemnation proceeding related to the I-20 sewer system is currently pending  
9 and no Court Order has been issued. It is possible the financial and litigation costs may be  
10 recovered from the Town of Lexington once the case has concluded. Per S.C. Code Ann.  
11 § 28-2-510 (2007) (B)(1) "A landowner who prevails in the trial of a condemnation action,  
12 in addition to his compensation for the property, may recover his reasonable litigation  
13 expenses..."

14 Because the outcome of the condemnation is unknown, it would be appropriate for  
15 the Company to request the Commission to consider the establishment of a Regulatory  
16 Asset in which to defer the financial and litigation costs associated with this legal action  
17 for future rate making treatment. Specifically, the National Association of Regulated  
18 Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") specifies  
19 "Regulatory assets and liabilities are assets and liabilities that result from rate actions of  
20 regulatory agencies." If this approach is adopted, ORS recommends the regulatory asset be  
21 limited to financial and litigation expenses for the I-20 condemnation and the regulatory  
22 asset not be allowed to accrue carrying costs.

**ORS Position related to legal actions at the ALC**

ORS is unable to determine the specific financial and legal expenses incurred by CWS related to the two (2) legal actions pending in the ALC. It appears these legal actions were generated by CWS in response to permit and administrative actions taken by DHEC. Both actions may be resolved with a decision related to the Town of Lexington condemnation of the I-20 sewer system. Because the outcome of the condemnation is unknown, it would be appropriate for the Company to request the Commission consider the establishment of a Regulatory Asset in which to defer the financial and litigation costs associated with this legal action for future rate making treatment. If this approach is adopted, ORS recommends the regulatory asset be limited to financial and litigation expenses for these legal actions at the ALC and the regulatory asset not be allowed to accrue carrying costs.

**Q. PLEASE EXPLAIN ORS'S RECOMMENDATION TO REMOVE \$306,552 FROM GROSS PLANT IN SERVICE RELATED TO COSTS THE COMPANY INCURRED FOR ENGINEERING SERVICES PERFORMED FOR THE FRIARSGATE WWTF.**

**A.** ORS adjustment No. 32D recommended the removal of \$306,552 related to six (6) invoices for WK Dickson which CWS recorded as gross plant in service. The ORS recommendation was made for these reasons:

- 1) The six (6) invoices provided for ORS review lacked sufficient detail to determine the specific work performed by the vendor; and,

1           2) Based on the project number noted on the vendor invoices, the work performed was  
2           related to implementation of two (2) DHEC Consent Orders which state the  
3           Company violated the terms of its National Pollutant Discharge Elimination System  
4           ("NPDES") Permit issued by DHEC.

5   **Q.   PLEASE EXPLAIN THE DEFICIENCIES FOUND ON THE VENDOR INVOICES.**

6   **A.**           The six (6) WK Dickson invoices are attached as Revised Surrebuttal Exhibit MPS-  
7           3. All six invoices denote the Project No. as 20170019.00.CA Engineering Services –  
8           Carolina Water Services. The brief description offered on each invoice is Phase 01  
9           Friarsgate WWTF Consent Order Support. Based on the invoice format, ORS can verify  
10          the project hours, rate for services, and date for services. However, ORS is not able to  
11          verify the specific work performed by the vendor in support of the Company beyond  
12          compliance with the DHEC Consent Orders. ORS informed the Company of this issue on  
13          March 7, 2018, to allow the Company the opportunity to provide additional information to  
14          better describe the work performed by the vendor. As of the date of this testimony, no  
15          additional information was provided by the Company or reviewed by ORS.

16   **Q.   WHY DOES ORS RECOMMEND THE RECOVERY OF THE ENGINEERING**  
17   **COSTS NOT BE INCLUDED FOR RATE MAKING?**

18   **A.**           Since the last rate case, DHEC issued and CWS agreed to two (2) Consent Orders  
19          which document CWS violated its NPDES permit at the Company's Friarsgate WWTF.  
20          See Revised Surrebuttal Exhibit MPS-4 for a copy of the Consent Orders 16-039-W and  
21          17-060-W. It appears from ORS's review of the six (6) WK Dickson invoices the Company  
22          retained a licensed professional engineering firm to perform certain services related to the

<sup>4</sup> Consent Order 17-060-W, pp. 5-9, paragraph 3

1 CWS has an obligation to operate the water and wastewater systems in compliance  
2 with all federal, state and local laws and regulations. It is reasonable then for CWS  
3 customers to have an expectation that, in exchange for the rates paid to CWS, the Company  
4 will fulfill its obligation to provide safe, reliable and high-quality utility service in  
5 compliance with federal, state and local laws and regulations. It is ORS's position that the  
6 DHEC Consent Orders demonstrate that CWS did not fulfill its obligation to its customers.  
7 Furthermore, the elements incorporated in the Consent Orders as outlined above, indicate  
8 that DHEC determined CWS's staff could not provide "adequately operations and  
9 maintenance at the facility."

10 ORS's recommendation to remove the \$306,552 from gross plant in service ensures  
11 the ratepayers are not impacted by the Company's failure to fulfill its obligation to provide  
12 safe, reliable and high-quality service.

13 **Q. DO YOU HAVE ANY OTHER COMMENTS RELATED TO THE ORS**  
14 **ADJUSTMENT TO REMOVE \$306,552 IN ENGINEERING COST?**

15 **A.** Yes. If the WK Dickson invoices relate to day-to-day operations and maintenance  
16 type services such as was required by the Consent Order, the Company should record those  
17 expenses as Operations and Maintenance. The Company has requested recovery of these  
18 invoices as Gross Plant in Service which is incorrect if the services related to day-to-day  
19 operations of the plant such as development of an Operations and Maintenance manual and  
20 oversight of a certified operator.

21 **Q. WHY DID ORS RECOMMEND AN ADJUSTMENT IN LATE FEE REVENUE?**



**A.** It is ORS's position that an adjustment to late fee revenue to reflect the impact of the Company's proposed rate increase is appropriate. There is a direct correlation between the total revenue billed by a company and the expected late fees to be charged to customers.

In addition, ORS recognized the impact of the proposed rate increase in an adjustment to the Company's uncollectible accounts as noted in ORS adjustment 41 contained in Audit Exhibit ZJP-1. CWS did not object to that adjustment in its rebuttal testimony. ORS's adjustment to late fee revenues is further supported by case law which states "... Absolute precision is not required, so long as adjustments are known and measurable within a degree of reasonable certainty." *Porter v. South Carolina Public Service Com'n* 328 S.C. 222, 493 S.E.2d 92 (1997).

**Q. HAS ORS REVIEWED THE COMPANY'S PROPOSAL TO APPLY A TAX MULTIPLIER TO CIAC TO ACCOUNT FOR STATE AND FEDERAL TAXES?**

A. Yes. ORS has reviewed the Company's proposal to apply a tax multiplier to CIAC to account for the recent change in tax law. The change in tax law requires any CIAC (including tap fees and plant impact fees) to be taxed at the applicable federal and state rates. The formula proposed by CWS results in an applicable 33.24% increase on any CIAC received from new customers or developers. The tax multiplier will allow the Company to continue to book the full amount of the CIAC as allowed by their current tariff, and directly pay for any tax costs. ORS agrees that this additional tax burden should be borne by the customer responsible for those costs, not the entire customer base.

ORS does not object to the addition of a tax multiplier to the Company's tariff. The proposed modification (a) does not change a rate applicable to any current customer, and

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**A.** Yes. If all the adjustments related to the Tax Cuts and Jobs Act recommended by both ORS and CWS are incorporated, they will fully address the proposal made by ORS in Docket No. 2017-381-A. Due to the estimates and timing of the Commission order in this Docket and Docket No. 2017-381-A, true-up adjustments may be necessary in the Company's next general rate proceeding to account for exact impacts.

**A.** Yes.

1 **BY MS. BELSER:**

2 **Q** Mr. Payne, please provide your name and occupation for  
3 the Commission.

4 **A** [PAYNE] My name is Zachary Payne. I'm employed by the  
5 South Carolina Office of Regulatory Staff as a senior  
6 auditor.

7 **Q** Could you please pull that mic, maybe, a little bit  
8 closer, please?

9 **CHAIRMAN WHITFIELD:** Yeah, if you could pull  
10 that a little closer. I think the folks in the  
11 back are having trouble hearing you.

12 **WITNESS PAYNE:** Do you want me to repeat?

13 **CHAIRMAN WHITFIELD:** Just pull that mic a  
14 little closer.

15 **WITNESS PAYNE:** [Indicating.]

16 **BY MS. BELSER:**

17 **Q** Are you the same Mr. Payne who prepared and caused to be  
18 filed 21 pages of direct testimony on or about March  
19 12th?

20 **A** [PAYNE] Yes, I am.

21 **Q** Do you have any changes, edits, or corrections to that  
22 prefiled direct testimony?

23 **A** [PAYNE] No, I do not.

24 **MS. BELSER:** Mr. Chairman, I would ask that  
25 Mr. Payne's direct testimony be entered into the

1 record of this case as if given orally from the  
2 stand.

3 **CHAIRMAN WHITFIELD:** Mr. Payne's direct  
4 testimony will be entered into the record as if  
5 given orally from the stand.

6 **BY MS. BELSER:**

7 **Q** And along with your direct testimony, did you file 19  
8 pages of exhibits marked as ZJP-1 through ZJP-9?

9 **A** [PAYNE] Yes, I did.

10 **Q** Do you have any changes, edits, or corrections to make  
11 to your exhibits?

12 **A** [PAYNE] No, I do not.

13 **MS. BELSER:** Mr. Chairman, I would ask that  
14 the exhibits included with Mr. Payne's direct  
15 testimony, marked ZJP-1 through ZJP-9 be marked as  
16 the next hearing exhibit and entered into the  
17 record of this case.

18 **CHAIRMAN WHITFIELD:** Mr. Payne's Exhibits  
19 ZJP-1 through -9 will be entered in as Hearing  
20 Exhibit No. 17.

21 **MS. BELSER:** It's not easy to say those  
22 initials together. I've had a quite hard time  
23 getting those.

24 [WHEREUPON, Hearing Exhibit No. 17 was  
25 marked and received in evidence.]

1 **BY MS. BELSER:**

2 **Q** Mr. Payne, did you also prepare eight pages of revised  
3 surrebuttal testimony that was filed with the Commission  
4 on March 30th?

5 **A** [PAYNE] Yes, I did.

6 **Q** And do you have any changes or edits to that revised  
7 surrebuttal testimony?

8 **A** [PAYNE] No, I do not.

9 **MS. BELSER:** Mr. Chairman, I would ask that  
10 Mr. Payne's revised surrebuttal testimony be  
11 entered into the record as if given orally from the  
12 stand.

13 **CHAIRMAN WHITFIELD:** Mr. Payne's revised  
14 surrebuttal testimony will be entered into the  
15 record as if given orally from the stand.

16 **BY MS. BELSER:**

17 **Q** And Mr. Payne, along with that revised surrebuttal  
18 testimony, did you file 20 pages of exhibits, marked as  
19 Surrebuttal Exhibits ZJP-1 through ZJP-9?

20 **A** [PAYNE] The exhibits are marked Revised Audit  
21 Surrebuttal Exhibits ZJP-1 through ZJP-9, but, yes.

22 **Q** Thank you. Do you have any edits or changes to those  
23 exhibits?

24 **A** [PAYNE] No, I do not.

25 **MS. BELSER:** Mr. Chairman, I would ask that

1 Mr. Payne's Revised Audit Surrebuttal Exhibits  
2 ZJP-1 through ZJP-9 be marked as the next hearing  
3 exhibit and entered into the record of this case.

4 CHAIRMAN WHITFIELD: Mr. Payne's Revised  
5 Audit Surrebuttal Exhibits ZJP-1 through -9 will be  
6 entered in as Hearing Exhibit No. 18.

7 [WHEREUPON, Hearing Exhibit No. 18 was  
8 marked and received in evidence.]

9 MS. BELSER: Thank you.

10 BY MS. BELSER:

11 Q Mr. Payne, have you prepared a summary of your direct  
12 and revised surrebuttal testimonies?

13 A [PAYNE] Yes, I have.

14 Q Would you provide that to the Commission, at this time?

15 A [PAYNE] Yes.

16 Good morning, Mr. Chairman and members of the  
17 Commission.

18 The purpose of my testimony and revised surrebuttal  
19 testimony is to set forth the findings and  
20 recommendations resulting from ORS's examination of the  
21 Application of Carolina Water Service and review of the  
22 company's rebuttal testimony.

23 ORS's examination consisted of three steps: First,  
24 ORS verified that the operating experience, rate base,  
25 and rate of return for the company's Application per-

1 book amounts were supported by the company's books and  
2 records. Next, ORS performed testing of the underlying  
3 transactions to ensure they were properly supported, had  
4 a stated business purpose, and were allowable for  
5 ratemaking purposes. Lastly, ORS proposed adjustments,  
6 as necessary, to revenues, expenditures, and rate base  
7 to normalize the test year.

8 ORS reviewed the company's rebuttal testimony and  
9 addressed the issues by CWS Witnesses Robert Hunter, Bob  
10 Gilroy, and Michael Cartin. My revised surrebuttal  
11 testimony addresses the adjustments to purchased water.  
12 sludge-hauling expense, rate-case expenses, and pro  
13 forma plant additions. My revised surrebuttal testimony  
14 also addresses ORS's positions on several items related  
15 to the impact of the Tax Cut and Jobs Act to the  
16 company's rates.

17 As stated in my revised surrebuttal testimony,  
18 subsequent to filing my surrebuttal and in preparation  
19 for this hearing, I reviewed information provided by the  
20 company in support of the most up-to-date purchased-  
21 water deferral balance and rate-case expenses. Based on  
22 the information provided by the company, ORS calculated  
23 a purchased-water deferral balance of \$668,274. This  
24 deferral balance is \$1534 less than the balance proposed  
25 by Company Witness Hunter in his rebuttal testimony, due



1 to the company double-counting previous balances from a  
2 few bulk supplier invoices. ORS's calculated deferral  
3 balance, amortized over three years, would result in an  
4 annual amortization expense of \$222,758.

5 ORS also reviewed invoices supporting the most up-  
6 to-date rate-case expenses and, at this time, has  
7 calculated total current rate-case expenses of \$92,384.  
8 As discussed in my revised surrebuttal testimony, based  
9 on information provided in Company Witness Hunter's  
10 rebuttal testimony, ORS proposes Adjustments B through E  
11 to reflect known and measurable changes to the company's  
12 accumulated deferred income taxes.

13 Additionally, ORS proposes Adjustments A and F to  
14 create and amortize a regulatory liability that  
15 represents estimated excess tax collections by the  
16 company in the 2018 calendar year through the May 10th –  
17 through the proposed order date of May 10th, due to  
18 charging rates established using a 35 percent federal  
19 tax rate instead of a 21 percent tax rate.

20 These six adjustments are presented in Revised  
21 Audit Surrebuttal Exhibits ZJP-1 through ZJP-5 where  
22 they are highlighted yellow.

23 **Q** Does that conclude –

24 **A** [PAYNE] That concludes – yes.

25 **Q** Does that conclude your summary?

1     **A**     [PAYNE] Yes, it does.

2                     **MS. BELSER:** Thank you.

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23     [PURSUANT TO PREVIOUS INSTRUCTION, THE

24     PREFILED DIRECT TESTIMONY OF ZACHARY J.

25     PAYNE FOLLOWS AT PGS 727-748]

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY & EXHIBITS**  
**OF**  
**ZACHARY J. PAYNE**  
**MARCH 12, 2018**



**DOCKET NO. 2017-292-WS**

**Application of Carolina Water Service, Incorporated for  
Approval of an Increase in Its Rates for Water and Sewer  
Services**

**DIRECT TESTIMONY OF**  
**ZACHARY J. PAYNE**  
**ON BEHALF OF**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2017-292-WS**  
**IN RE: APPLICATION OF CAROLINA WATER SERVICE,**  
**INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR**  
**WATER AND SEWER SERVICES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Zachary J. Payne. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Audit Department as a Senior Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Business Administration with a double major in Accounting and Economics from the University of South Carolina in May 2013. I began employment with ORS in March 2015 and since have worked on cases dealing with the regulation of nuclear waste, natural gas, water and wastewater companies.

**Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("PSC" OR "COMMISSION")?**

**A.** Yes.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to set forth my findings and recommendations resulting from ORS's examination of the application of Carolina Water Service, Inc. ("CWS" or "Company") in this docket, 2017-292-WS. The application was filed on November 10, 2017.

**Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF CWS.**

**A.** ORS's examination of the Company's application consisted of three major steps. In step one, ORS verified that the operating experience, reported by CWS in its application, was supported by CWS's accounting books and records for the twelve months ending August 31, 2017 ("test year"). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and prior Commission orders.

**Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.**

**A.** I have attached the following exhibits to my testimony relating to the Company's application:

- Audit Exhibit ZJP-1: Operating Experience, Rate Base, and Rate of Return for Combined Operations – Water and Sewer Service Territory 1 & 2
- Audit Exhibit ZJP-2: Operating Experience, Rate Base, and Rate of Return for Water Service Territory 1



- Column (1) details the application per books provided by CWS for the test year ended August 31, 2017. ORS verified total operating revenue of \$21,119,639, total operating expenses of \$18,426,000 and net income for return of \$2,783,247 to the

Column (5) details the effect of the Company's proposed rate increase by adding columns (3) and (4). Net income for return of \$6,045,965 was computed using total operating revenues of \$24,610,475, less total operating expenses of \$18,626,941, plus customer growth of \$62,431. Total Rate Base of \$54,135,016 produced a return on rate base of 11.17%. As shown on Audit Exhibit ZJP-9, the resulting return on equity was 15.42%.

**Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ZJP-5.**





1 allocated to water territory 1, water territory 2 and sewer territory based on its percentage  
2 of Equivalent Residential Connections ("ERC"). The ERC percentage is calculated by  
3 dividing the number of ERCs served by each territory by the total number of ERCs  
4 served by all subsidiaries to which the employee is assigned. ORS recalculated the ERC's  
5 to reflect the removal of the I-20 sewer system before allocating salaries. ORS also  
6 removed salaries booked directly to the I-20 sewer system during the test year. ORS  
7 computed annualized maintenance salaries of \$2,699,723, less per book maintenance  
8 salaries of \$2,565,425, for an adjustment of \$134,298. The difference between ORS's and  
9 the Company's adjustments is primarily due to the inclusion of the salary for the new  
10 president of CWS whose hiring occurred after the filing of the application. ORS included  
11 this new salary as a known and measurable out of test year change in expenses.

12 Adjustment 6 – Capitalized Time – ORS and the Company propose to adjust capitalized  
13 time. ORS proposes to adjust capitalized time by calculating the test year percentage of  
14 capitalized time removed from salaries and applying it to pro-forma salaries calculated in  
15 adjustments 5 and 14. ORS verified each operator's hourly rate and sampled time sheets  
16 used to calculate test year capitalized time. ORS computed pro-forma capitalized time of  
17 (\$541,688), less the per book amount of (\$525,777), for an adjustment of (\$15,911).

18 Adjustment 7 – Purchased Power – ORS and the Company propose to adjust purchased  
19 power expense to remove expenses charged to the I-20 sewer plant BU during the test year.  
20 The Company no longer owns and operates this unit. The amount of test year purchased  
21 power expense to remove is \$75,032.

22 Adjustment 8 – Purchased Water & Sewer – ORS and the Company propose to adjust  
23 purchased water and sewer. ORS proposes to adjust purchased water and sewer expense

1 by \$598,804 to reflect a going forward expense level. This adjustment is comprised  
2 primarily of three components. First, it annualizes various rate increases from CWS's bulk  
3 water suppliers based on the twelve months of supplier water bills through January 2018.  
4 Second, it adjusts purchased water expense to reflect two BUs that converted to purchased  
5 water systems, using the BU's test year consumption data and applicable purchased water  
6 rates. Third, it adjusts purchased water expense to account for a water loss adjustment  
7 recommended by ORS Utility Rates Department witness Matthew Schellinger.

8 Adjustment 9 – Maintenance and Repair – ORS proposes a total maintenance and repair  
9 adjustment of (\$32,474). This adjustment is comprised of the following maintenance and  
10 repair adjustments:

11 Adjustment 9a – Deferred Maintenance – ORS and the Company propose to adjust  
12 maintenance and repairs for deferred maintenance expenses. ORS's and the Company's  
13 adjustments allocate deferred maintenance expenses directly to the water and sewer rate  
14 territories based on the BU. ORS proposes to adjust maintenance and repair expense by  
15 (\$13) to reflect total adjusted deferred maintenance expenses of \$62,985. ORS's review of  
16 supporting documentation provided by the Company indicates that ORS's and the  
17 Company's adjustment calculations are the same. However, the Company's reporting of  
18 this adjustment as filed in the application contained an error.

19 Adjustment 9b – Removing 1-20 Sewer Maintenance and Repair – ORS and the Company  
20 propose to adjust maintenance and repair expense to remove expenses charged to the 1-20  
21 sewer plant BU during the test year. The Company no longer owns and operates this unit.  
22 The amount of test year maintenance and repair expense to remove is \$116,131.

Adjustment 10 – Maintenance Testing – ORS and the Company propose to adjust maintenance testing expense to remove expenses charged to the I-20 sewer plant BU





1        Adjustment 14 – Office Salaries & Wages – ORS and the Company propose to adjust  
2        office salaries. ORS proposes to adjust Company office salaries by annualizing the latest  
3        available salary information as of November 2017 and accounting for changes due to the  
4        removal of the I-20 sewer plant BU. Each office employee's total salary is allocated to  
5        water territory 1, water territory 2 and sewer territory based on its percentage of ERCs. The  
6        ERC percentage is calculated by dividing the number of ERCs served by each territory by  
7        the total number of ERCs served by all subsidiaries to which the employee is assigned.  
8        ORS recalculated the ERCs to reflect the removal of the I-20 sewer plant BU before  
9        allocating salaries. ORS computed annualized general salaries of \$627,460, less per book  
10       general salaries of \$700,280, for an adjustment of (\$72,820). The difference between  
11       ORS's and the Company's adjustments for office salaries is primarily due to the change  
12       in ERCs from the removal of the I-20 sewer plant BU. Utilities Inc. corporate salaries are  
13       allocated to its subsidiaries using ERCs. The removal of the I-20 sewer plant BU reduced  
14       CWS's ERC count, thereby reducing CWS's share of the allocation of salaries from  
15       Utilities, Inc.

16       Adjustment 15 – Office Supplies and Other Office Expense – ORS proposes a total office  
17       supplies and other office expense adjustment of (\$112,585). This adjustment is comprised  
18       of the following office supplies and other office expense adjustments:

19       Adjustment 15a – Non-Recoverable Items – ORS and the Company propose to remove all  
20       penalties and fines of \$95,241 from test year expenses.

21       Adjustment 15b – Removing I-20 Sewer Office Supplies and Other Office Expense – ORS  
22       and the Company propose to adjust office supplies and other office expense to remove  
23       expenses charged to the I-20 sewer plant BU during the test year. The Company no longer

Adjustment 17 – Pension and Other Benefits – ORS and the Company propose to adjust pension and other benefits. ORS proposes an adjustment to annualize pension and other benefits associated with the ORS pro forma salary adjustments for full-time operators and office employees. ORS removed non-allowable benefits including employee awards, verified that benefits were only applied to full-time employees, and verified all benefit amounts and percentages. ORS computed pro-forma pension and other benefits of \$819,258, less the per book amount of \$763,625, resulting in an adjustment of \$55,633.

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Adjustment 22b – Non-Allowable Expenses – ORS proposes an adjustment of (\$113,837) for expenses ORS identified as non-allowable for ratemaking purposes. The non-allowable





1 utility/Commission taxes after the ORS accounting and pro forma adjustments proposed for  
2 revenues. A PSC/ORS factor of .00524169, was used to compute this adjustment. ORS  
3 proposes to adjust gross receipts and utility/Commission taxes by \$23,787.

4 Adjustment 25c – Pro Forma Property Taxes – ORS and the Company propose to adjust  
5 property taxes. ORS's proposed adjustment to property tax expense for known and  
6 measurable changes since the end of the test year was comprised of two steps. The first  
7 step was to obtain and verify the Company's actual property tax expense for the 2017 tax  
8 year, since test year property taxes were based on the 2016 tax year. A portion of the 2017  
9 property tax expense needed to be allocated, since it was related to property that was  
10 allocated between multiple BUs. ORS calculated the allocation factors to calculate  
11 property taxes for each BU based on the property values of the BUs. ORS used property  
12 value to determine the allocation percentages for property taxes rather than using ERCs,  
13 since taxes are assessed on property value, not ERCs. The second step was to calculate the  
14 increase in property tax expense as a result of pro forma plant additions. ORS calculated  
15 total pro forma property taxes of \$2,732,757, less per books property tax expense of  
16 \$2,446,584, for an adjustment of \$286,173. The company used the same two steps in  
17 calculating its pro forma property tax expense in the application. However, the Company  
18 used estimates, since the 2017 tax year property tax and actual pro forma plant additions  
19 were not known at the time of the filing of the application. The Company also allocated  
20 property tax expense for allocated property to BUs using ERCs. The Company's property  
21 tax adjustment also differs from the ORS property tax adjustment in that it accounted for  
22 the removal of the I-20 sewer plant BU property tax expense. ORS addresses the removal  
23 of I-20 sewer plant BU property tax expense in adjustment 25d.

Adjustment 29 – Amortization of Plant Acquisition Adjustment (“PAA”) – ORS and the Company propose to adjust the amortization of the PAA. ORS’s adjustment reflects the amortization of gross PAA after the removal of the I-20 sewer BU PAA. ORS’s total

1 amortization of PAA expense is (\$15,373) less the per book amount of (\$17,129), for a  
2 total adjustment of \$1,756. See Audit Exhibit ZJP-6 for further detail.

3 Adjustment 30 – Customer Growth – ORS proposes to adjust customer growth after the  
4 accounting and pro forma adjustments. The growth factors of 1.5662% for water territory  
5 1, 0.4166% for water territory 2, and 1.1023% for sewer were provided by ORS Utility  
6 Rates witness Matthew Schellinger. The total ORS adjustment was \$24,448.

7 Adjustment 31 – Interest During Construction – ORS and the Company propose an  
8 adjustment of \$89,608 to remove per book interest during construction for ratemaking  
9 purposes.

10 Adjustment 32 – Gross Plant in Service – ORS proposes a total gross plant in service  
11 adjustment of (\$6,274,846). The adjustment is comprised of the following gross plant in  
12 service adjustments:

13 Adjustment 32a – Vehicles and Computers – ORS proposes to adjust gross plant in  
14 service by (\$84,429) to reflect changes in allocation factors, useful lives, and general  
15 ledger activity for vehicles and computers. ORS adjusted allocation factors to update  
16 ERCs for the removal of the I-20 sewer plant BU. ORS used eight-year useful lives for  
17 all computers and computer equipment, while the Company used different useful lives for  
18 hardware, software, etc. ORS used six-year useful lives for vehicles in previous CWS  
19 rate cases, but ORS used a five-year useful life in this docket, to better match the  
20 Company's vehicle purchasing practices.

21 Adjustment 32b – Excess Book Value – ORS and the Company propose to adjust gross  
22 plant in service for excess book value. ORS proposes to adjust gross plant in service to  
23 remove excess book value of (\$1,937,905) as approved in prior CWS rate cases. ORS



1 also proposes to remove the accumulated amortization of excess book value of  
2 \$1,417,544 in adjustment 33b, resulting in net excess book value of (\$520,361) removed  
3 from plant in service and excluded from the ORS calculation of depreciation expense and  
4 rate base. The Company removed net excess book value of (\$493,722).

5 Adjustment 32c – General Ledger Additions and Retirements – ORS and the Company  
6 propose to adjust gross plant in service for general ledger additions, pro forma plant and  
7 pro forma retirements. ORS proposes to adjust gross plant in service for net plant  
8 additions of \$2,922,554 as of February 12, 2018. ORS reviewed supporting  
9 documentation for the proposed plant additions and retirements and included only the  
10 plant additions that were known and measurable and providing service to customers.

11 Adjustment 32d – DHEC Consent Order Costs – ORS proposes to adjust gross plant in  
12 service to remove costs of \$306,552 incurred as a result of DHEC consent orders. ORS  
13 identified costs included in projects during the test year that ORS believes the Company  
14 would not have incurred without the consent orders. In addition, ORS identified plant costs  
15 associated with consent orders in the pro-forma plant additions that ORS did not include in  
16 gross plant in service as part of adjustment 32c.

17 Adjustment 32e – Removing I-20 Sewer Gross Plant in Service – ORS and the Company  
18 propose to adjust gross plant in service to remove the amount associated with the I-20  
19 sewer plant BU. The Company no longer owns and operates this unit. The amount of gross  
20 plant in service to remove is \$6,868,514.

21 Adjustment 33 – Accumulated Depreciation – ORS proposes a total accumulated  
22 depreciation adjustment of \$2,949,621. This adjustment is comprised of the following  
23 accumulated depreciation adjustments:

1        Adjustment 33a – Accumulated Depreciation – Current Depreciation, Vehicles,  
2        Computers and Prior Rate Case Adjustments – ORS proposes to adjust accumulated  
3        depreciation by \$453,963. This adjustment includes the depreciation expense adjustment  
4        calculated in ORS adjustment 23. It also reflects changes to vehicle and computer  
5        accumulated depreciation resulting from the change in useful life, vehicle and computer  
6        general ledger additions and retirements, and changes to ERC allocation factors to reflect  
7        the removal of the I-20 sewer system. This adjustment also includes accumulated  
8        depreciation resulting from extraordinary retirements ordered in prior CWS rate cases.

9        Adjustment 33b – Excess Book Value – ORS proposes to adjust accumulated  
10       depreciation by \$1,417,544. This adjustment is to remove the accumulated amortization  
11       of the excess book value that was removed from gross plant in service in adjustment 32b,  
12       in accordance with prior Commission orders.

13       Adjustment 33c – Removing I-20 Facility Accumulated Depreciation – ORS and the  
14       Company propose to adjust accumulated depreciation to remove the amount associated  
15       with the I-20 sewer plant BU. The Company no longer owns and operates this unit. The  
16       amount of accumulated depreciation removed is \$1,078,114.

17       Adjustment 34 – Cash Working Capital – ORS and the Company propose to adjust cash  
18       working capital after accounting and pro forma adjustments. ORS and the Company used  
19       a 45-day allowance or 1/8 of expenses for the working capital adjustment. ORS proposes  
20       an adjustment of (\$6,372). Details of this adjustment are included in Audit Exhibit ZJP-8.

21       Adjustment 35 – Contributions in Aid of Construction – ORS and the Company propose  
22       to adjust CIAC. ORS proposes to adjust net CIAC to reflect the amortization of CIAC  
23       expense in adjustment 24, pro forma CIAC additions, and the removal of the I-20 sewer





**Adjustment 44 – Income Taxes - Federal** – ORS proposes to adjust state income taxes for the Company’s proposed rate increase. ORS used a 21% rate for federal income taxes. This rate takes into account known and measurable changes from the Tax Cut and Jobs Act





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[PURSUANT TO PREVIOUS INSTRUCTION, THE  
PREFILED REVISED SURREBUTTAL TESTIMONY  
OF ZACHARY J. PAYNE FOLLOWS AT PGS 750-758]

**THE OFFICE OF REGULATORY STAFF  
REVISED SURREBUTTAL TESTIMONY &  
EXHIBITS**

**OF**

**ZACHARY J. PAYNE**

**MARCH 30, 2018**



**DOCKET NO. 2017-292-WS**

**Application of Carolina Water Service, Incorporated for  
Approval of an Increase in Its Rates for Water and Sewer  
Services**

**REVISED SURREBUTTAL TESTIMONY AND EXHIBITS OF**  
**ZACHARY J. PAYNE**  
**ON BEHALF OF**  
**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2017-292-WS**  
**IN RE: APPLICATION OF CAROLINA WATER SERVICE,**  
**INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS**  
**RATES FOR WATER AND SEWER SERVICES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
**OCCUPATION.**

**A.** My name is Zachary J. Payne. My business address is 1401 Main Street,  
Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina  
Office of Regulatory Staff ("ORS") in the Audit Department as a Senior Auditor.

**Q. ARE YOU THE SAME ZACHARY PAYNE WHO PRESENTED DIRECT**  
**TESTIMONY IN THIS DOCKET?**

**A.** Yes, I pre-filed direct testimony reflecting ORS findings in this proceeding  
on March 12, 2018.

**Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL**  
**TESTIMONY?**

**A.** The purpose of my revised surrebuttal testimony is to respond to certain  
issues raised in the rebuttal testimonies of Carolina Water Service, Inc. ("CWS" or  
"Company") witnesses Robert Hunter, Michael Cartin, and Bob Gilroy. My revised

surrebuttal will address the Company's issues with ORS adjustment 9c proposed for deferred purchased water, ORS adjustment 9d proposed to normalize sludge hauling expense, ORS adjustment 16 proposed for rate case expenses, and ORS adjustment 32c proposed for general ledger additions that excluded costs for the Friarsgate equalization basin ("EQ") liner. My revised surrebuttal will also address components of the information presented in Robert Hunter's rebuttal testimony regarding the impact of the Tax Cut and Jobs Act on the Company's rates.

**Q. WHAT IS ORS'S POSITION REGARDING THE DEFERRED PURCHASED WATER ADJUSTMENT UPDATE PROPOSED BY MR. HUNTER IN HIS REBUTTAL TESTIMONY?**

**A.** Prior to ORS filing direct testimony, the Company had provided documentation sufficient to support a purchased water deferral balance of \$573,101. This is the same deferral balance referenced on page 8, line 9 of my direct testimony filed March 12, 2018. On March 22, 2018, the Company provided documentation in support of a purchased water deferral balance of \$669,808. ORS did not have sufficient time to review and verify these supporting documentation provided by the Company prior to the filing of my surrebuttal testimony. ORS will review this information prior to the hearing.

**Q. WHAT IS ORS'S POSITION REGARDING THE NORMALIZED SLUDGE HAULING EXPENSE ADJUSTMENT ADDRESSED BY MR. GILROY IN HIS REBUTTAL TESTIMONY?**

**A.** ORS adjustment 9d was proposed to normalize sludge hauling expense for the Friarsgate and Watergate business units ("BUs"). ORS's review of the test year



and the two previous years ended August 31<sup>st</sup>, indicated a larger than normal increase in sludge hauling expenses during the test year for these two BUs. It is ORS's opinion that the test year sludge hauling amounts are atypical, and do not indicate future trends. Based on the review, ORS noted the following:

Annual Sludge Hauling Expense for Friarsgate and Watergate				
	Expense for 12 Months Ended 8/31/15	Expense for 12 Months Ended 8/31/16	Expense for 12 Months Ended 8/31/17	3 Year Average Annual Expense
Friarsgate	\$99,197	\$127,426	\$212,226	\$146,283
Watergate	\$25,370	\$25,797	\$72,007	\$41,058

ORS used the three year average annual expense in the table above to calculate ORS adjustment 9d in the amount of (\$96,892), as it more closely represents a typical year, and normalizes the Company's operating experience used for setting rates for customers going forward. "When an unusual situation exists for utility ratemaking purposes resulting in test year figures that are atypical and thus do not indicate future trends, Public Service Commission ("PSC") should adjust test year data." *Porter v. South Carolina Public Service Comm'n*, 328 S.C. 222, 493 S.E.2d 92 (1997).

**Q. WHAT IS ORS'S POSITION REGARDING THE RATE CASE EXPENSE ADJUSTMENT UPDATE PROPOSED BY MR. HUNTER IN HIS REBUTTAL TESTIMONY?**

**A.** Prior to ORS filing direct testimony, the Company had provided documentation sufficient to support \$47,546 in current rate case expenses. This is the same amount for current rate case expenses referenced on page 11, line 10 of

1 my direct testimony filed March 12, 2018. On March 22, 2018, the Company  
2 provided additional documentation to support current rate case expenses totaling  
3 \$88,500. Due to the timeline for filing surrebuttal, ORS did not have sufficient time  
4 to review and verify these latest information provided by the Company. ORS  
5 recognizes that the Company will continue to incur expenses up to and through the  
6 hearing. ORS does not object to an additional update to rate case expenses subject  
7 to ORS verification.

8 **Q. WHAT IS ORS'S POSITION REGARDING THE FRIARSGATE**  
9 **EQUALIZATION BASIN LINER PROJECT THAT MR. CARTIN**  
10 **PROPOSES TO INCLUDE IN THE ADJUSTMENT TO GROSS PLANT IN**  
11 **SERVICE FOR PLANT ADDITIONS IN HIS REBUTTAL TESTIMONY?**

12 **A.** Mr. Cartin proposes to include in rate base, as part of ORS adjustment 32c,  
13 costs incurred through February 12, 2018 relating to the removal and replacement  
14 of the EQ liner at the Friarsgate wastewater treatment facility. The new EQ liner  
15 currently remains under construction. Therefore, it is not used and useful or  
16 providing service to customers, and costs associated with removal and replacement  
17 of the EQ liner, should not be included in the calculation of rates to be charged to  
18 customers in this docket.

19 **Q. DID ORS REVIEW THE INFORMATION PRESENTED BY THE**  
20 **COMPANY ON THE IMPACT OF THE TAX CUT AND JOBS ACT TO**  
21 **THE COMPANY'S RATES?**

22 **A.** Yes. This section of my revised surrebuttal testimony addresses ORS's  
23 position related to the Company's proposal to create an excess Accumulated

1       Deferred Income Tax ("ADIT") liability, the protected and unprotected  
2       components of the liability, and the amortization of the excess ADIT liability.

3               ORS agrees with the Company's proposal to create an excess ADIT liability  
4       that represents the portion of ADIT that has been collected from ratepayers but is  
5       no longer to be paid by the Company in taxes due to lower federal tax rates. ORS  
6       agrees with the Company's position that this excess ADIT liability should be split  
7       into protected and unprotected components, so that each component can be  
8       amortized in a manner that most accurately reflects the benefit the Company will  
9       realize, which should be passed on to ratepayers.

10              ORS has not had sufficient time to verify the Company's calculation of the  
11       balance of protected excess ADIT or the calculation of a 56 year weighted average  
12       life associated with the protected excess ADIT, but accepts the Company's proposal  
13       for this docket. ORS also accepts the Company's proposal to amortize the  
14       unprotected excess ADIT over 3 years, although ORS also has not had sufficient  
15       time to verify the Company's calculation of the unprotected excess ADIT liability  
16       balance. However, it is ORS's opinion that ratepayers are due a return of monies  
17       collected for taxes that will no longer be paid by the Company as a result of the Tax  
18       Cut and Jobs Act. Although ORS accepts the Company's calculations of the  
19       protected and unprotected excess ADIT balances and the 56 year weighted average  
20       useful life for protected excess ADIT currently, ORS recognizes that these excess  
21       ADIT balances and the calculation of the weighted average life may need to be  
22       trued up in a future docket.



1     **Q.     WHAT ORS ADJUSTMENTS ARE NECESSARY TO REFLECT THE**  
2     **IMPACT OF THE TAX CUT AND JOBS ACT ON THE COMPANY'S**  
3     **OPERATING EXPERIENCE, RATE BASE AND RATE OF RETURN?**

4     **A.             The adjustments are as follows:**

- 5         • **ORS Adjustment A – Amortization of Excess Tax Collection** – ORS  
6         proposes an adjustment of \$80,625 to the Company's revenue. This adjustment  
7         reflects the 3 year amortization of the \$241,875 excess tax collection liability  
8         created by adjustment F. This adjustment is discussed in further detail in the  
9         revised surrebuttal testimony of ORS Utility Rates Department witness  
10        Matthew Schellinger.
- 11       • **ORS Adjustment B – Amortization of Excess ADIT Liability** – ORS and the  
12       Company propose an adjustment of (\$136,924) to reflect the annual  
13       amortization of protected and unprotected excess ADIT liabilities created by  
14       adjustments D and E. The protected excess ADIT liability amount of  
15       (\$2,978,710) is amortized over 56 years resulting in an annual amortization of  
16       (\$53,191). The unprotected excess ADIT liability amount of (\$251,199) is  
17       amortized over 3 years resulting in an annual amortization of (\$83,733).
- 18       • **ORS Adjustment C – Accumulated Deferred Income Taxes** – ORS and the  
19       Company propose an adjustment of \$3,229,909 to remove from existing ADIT  
20       the amount of excess ADIT liabilities created by the Tax Cut and Jobs Act.
- 21       • **ORS Adjustment D – Excess ADIT Liability – Protected** – ORS proposes an  
22       adjustment of (\$2,925,519) to create a net excess ADIT liability for protected  
23       asset classes. The adjustment amount reflects the balance of the (\$2,978,710)



liaibility proposed by the Company less one year's amortization expense of (\$53,191) included in adjustment B.

- **ORS Adjustment E – Excess ADIT Liability – Unprotected** - ORS proposes an adjustment of (\$167,466) to create a net excess ADIT liability for unprotected asset classes. The adjustment amount reflects the balance of the (\$251,199) liability proposed by the Company less one year's amortization expense of (\$83,733) included in adjustment B.
- **ORS Adjustment F – Excess Tax Collection Liability** - ORS proposes an adjustment of (\$161,250) to the Company's rate base. This adjustment reflects the balance of (\$241,875) less one year of amortization, for excess tax collection which ORS estimates to be the amount of excess tax collection the Company should collect from January 1, 2018 through May 10, 2018 from customers due to current customer rates having been calculated using a 35% federal tax rate. ORS proposes to amortize this liability over 3 years and the annual amortization of \$80,625 is addressed in ORS adjustment A. This adjustment is discussed in further detail in the revised surrebuttal testimony of ORS Utility Rates Department witness Matthew Schellinger.

To reflect the impact of the Tax Cut and Jobs Act on the Company's operating experience, rate base and rate of return, ORS has included Revised Audit Surrebuttal Exhibits ZJP-1 through ZJP-9. These revised exhibits follow the same format as the exhibits filed on March 12, 2018 along with my direct testimony. These revised exhibits include ORS adjustments A-F presented above, which have

1           been highlighted on ORS Revised Audit Surrebuttal Exhibits ZJP-1 through ZJP-  
2           5.

3           As a result of ORS adjustments A-F, several adjustments proposed by ORS  
4           in my direct testimony filed March 12, 2018 have changed. These adjustments  
5           include adjustment 25b utility commission taxes, adjustment 26 income taxes -  
6           state, adjustment 27 income taxes - federal, adjustment 30 customer growth, and  
7           adjustment 37 interest expense. These adjustments are also reflected in Revised  
8           Audit Surrebuttal Exhibits ZJP-1 through ZJP-9.

9       **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

10      **A.           Yes.**

1                   **MS. BELSER:** Mr. Chair, the witnesses are  
2                   tendered for questions from the parties and from  
3                   the Commission.

4                   **CHAIRMAN WHITFIELD:** Thank you, Ms. Belser.  
5                   Mr. Terreni, Mr. Elliott, questions for this  
6                   panel?

7                   **MR. ELLIOTT:** No questions of these witnesses,  
8                   sir.

9                   **CHAIRMAN WHITFIELD:** Ms. Valtorta?

10                  **MS. VALTORTA:** I don't have any questions.

11                  **CHAIRMAN WHITFIELD:** Mr. Knowlton?

12                  **MR. KNOWLTON:** No questions, sir.

13                  **CHAIRMAN WHITFIELD:** Commissioners.

14                  **COMMISSIONER ELAM:** Mr. Chairman?

15                  **CHAIRMAN WHITFIELD:** Commissioner Elam.

16                                   **EXAMINATION**

17                   **BY COMMISSIONER ELAM:**

18           **Q**     I have just one. Good morning. Mr. Payne, do you agree  
19                   with the company's methodology of calculating the effect  
20                   of the new tax law on income tax expenses?

21           **A**     [PAYNE] Specifically, on the income tax expense?

22           **Q**     On income tax expenses, yes.

23           **A**     [PAYNE] Yes, we propose that we use a 21 percent for  
24                   federal tax. I think of it more that the company agreed  
25                   with our calculation.

1 **Q** And it's just an adjustment going forward, I believe you  
2 said in your summary?

3 **A** [PAYNE] Specifically, related to the tax rate, yes, that  
4 we will use the 21 percent tax rate.

5 **COMMISSIONER ELAM:** Thank you.

6 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
7 Elam.

8 Commissioner Fleming.

9 **EXAMINATION**

10 **BY COMMISSIONER FLEMING:**

11 **Q** Good morning. In your Surrebuttal Exhibit MPS-1, you  
12 have an amount of \$925,866.54 highlighted for financial  
13 and litigation costs not related to the condemnation of  
14 the I-20 plant, and you stated in your testimony that  
15 you reviewed the expense invoices provided, but was  
16 unable to directly assign specific financial and  
17 litigation costs to each legal action. Have you asked  
18 for more detailed documentation?

19 **A** [SCHELLINGER] Yes, we have. We were provided an  
20 opportunity to review the invoices, directly, but  
21 through review of the invoices it wasn't entirely clear  
22 how each individual line item on a legal invoice might  
23 directly relate to a specific case. In my Exhibit MPS-1  
24 on that first page, we specifically requested of the  
25 company to provide a breakdown of how much the total

1 litigation cost attributable to each case was, and they  
2 were unable to provide that breakdown by the five cases  
3 they have listed out and were only able to provide an  
4 estimate towards this 80/20 split on these condemnation  
5 costs after a certain point in time.

6 Q Okay. Do you know why they were unable to provide that?

7 A [SCHELLINGER] I do not.

8 Q Okay. And is that the work of John Hoefer and his group  
9 that we're talking about?

10 A [SCHELLINGER] It would be all of the work on page 3-of-3  
11 of my Surrebuttal Exhibit -1. I believe there's more  
12 law firms in there than just Mr. Hoefer.

13 Q Okay. You mentioned Mr. Hoefer on –

14 A [SCHELLINGER] I believe there's Elliott & Elliott,  
15 Terreni Law Firm, Winston & Strawn, and possibly some  
16 others in there as well.

17 Q So none of those groups were able to provide the  
18 detailed information you requested?

19 A [SCHELLINGER] We didn't request that detailed  
20 information from those groups. We requested it from the  
21 company to provide that breakdown.

22 Q Okay. So you have not been – you've not worked with the  
23 attorneys, directly.

24 A [SCHELLINGER] No, ma'am.

25 Q Okay, thank you. And Dr. Carlisle.

1     **A**     [CARLISLE] Good morning.

2     **Q**     We heard about arithmetic means and geometric means  
3             yesterday, and I understand the two economists have a  
4             disagreement on that.

5     **A**     [CARLISLE] We do.

6     **Q**     Yeah. And I – under the previous economist, I noticed  
7             he said if you use the geometric mean, it's the same as  
8             just reading the first page and last page about world  
9             history, and to know what happened during the course of  
10            events. And I assume he was talking somewhat about the  
11            risk of stock. Could you – since it provides a constant  
12            annual return over some period, does the geometric mean  
13            actually mask the risk of the volatility itself?

14    **A**     [CARLISLE] The geometric mean is a measure of return.  
15             Arithmetic mean is a measure of return one period over  
16             another, within a larger context. It is, as such, a  
17             good measure of one period to another, but not that good  
18             a measure of risk, or even of volatility. There are  
19             other statistics to do that, and they are sometimes  
20             provided by more sophisticated entities. I believe our  
21             own retirement system sometimes gives us some measures  
22             of volatility for some of our investments, or at least  
23             they used to. But arithmetic mean is very misleading,  
24             in terms – if you want to know the rich texture of  
25             history, that's one thing, but if you want to know how



1 much money you're going to wind up with, that's quite  
2 another. And the historical summary is best – in fact,  
3 almost exclusively – shown by the geometric mean. It  
4 goes, in more common parlance, by compound annual growth  
5 rate, because it recognizes that after – if you start  
6 out with \$100 and, in the next year, you have a  
7 different amount, it may go up by the same percentage,  
8 but obviously you are starting with a higher base. And,  
9 similarly, if it goes down, even if you go back up at a  
10 much higher percentage, you're starting from a lower  
11 base, so arithmetic mean is highly misleading. And I  
12 believe I have an example in my surrebuttal, which shows  
13 how somebody could believe he or she was getting a 25  
14 percent return and actually wind up with losing  
15 everything. So it is – that is why I would urge the use  
16 of the geometric mean.

17 I am aware that some people buy stocks and then  
18 sell them the next year, so, for my DCF, I include the  
19 arithmetic mean, as well. But if you want to see how  
20 misleading using it to find out what one winds up with  
21 over a period of time is, page 8-of-15 of my surrebuttal  
22 shows how a person can wind up with zero, even with an  
23 arithmetic return of 25 percent.

24 **Q** So it sounds like you both have strong reasons for each  
25 of the methods that you use.

1     **A**     [CARLISLE] Well, the arithmetic mean exaggerates the  
2             return.

3     **Q**     And it sounds like you totally disagree; there's no  
4             meeting of the minds, then.

5     **A**     [CARLISLE] Well, I use both, because investors have  
6             access to both, in my discounted cash flow analysis, so  
7             I don't throw it out the window.

8     **Q**     Okay, thank you.

9     **A**     [CARLISLE] You're welcome.

10                   **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
11                   Fleming.

12                   Commissioner Randall.

13                   **VICE CHAIRMAN RANDALL:** Thank you.

14                   **EXAMINATION**

15     **BY VICE CHAIRMAN RANDALL:**

16     **Q**     Mr. Schellinger, on page eight and nine of your prefiled  
17             direct testimony, you're talking about the company's  
18             billing record accuracy. I've got just two or three  
19             questions about that. ORS imputed revenue for 47 sewer  
20             customers and six water customers. Were all of those  
21             not being billed by the company?

22     **A**     [SCHELLINGER] Those were customers – or, sorry. The  
23             majority of those were customers that were not being  
24             billed in the test year, but had been identified as  
25             having received service in the test year. So they were

1 billed outside of the test year, received service in the  
2 test year, and that's why we imputed the revenue back  
3 into the test year for those customers.

4 **Q** Okay. How much revenue was imputed, do you know?

5 **A** [SCHELLINGER] I don't have the exact amount broken out,  
6 just for those customers. I apologize.

7 **Q** That's fine. Okay. In Commission Order 2012-547, the  
8 Commission required the vacancy survey process to be  
9 instituted. Do you believe that reinstituting that  
10 vacancy survey process would be enough to prevent this  
11 from happening again?

12 **A** [SCHELLINGER] I believe it's a good first step towards  
13 identifying vacant houses, as well as unbilled  
14 customers.

15 **Q** Does ORS have any kind of recommendation on other  
16 internal control measures to help with this?

17 **A** [SCHELLINGER] Not specifically, at this time.

18 **VICE CHAIRMAN RANDALL:** Thank you, Mr.  
19 Schellinger.

20 Thank you, Mr. Chairman.

21 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
22 Randall.

23 Commissioner Bockman, I left you off over  
24 there.

25 **COMMISSIONER BOCKMAN:** Thank you, Mr.

1 Chairman. I don't feel left out at all. I know  
2 you would get around to me, but thank you, so much.

3 **EXAMINATION**

4 **BY COMMISSIONER BOCKMAN:**

5 **Q** Good morning, gentlemen. Mr. Payne, you testified, I  
6 believe, about the purchased-water deferral balance?

7 **A** [PAYNE] Yes.

8 **Q** Did you update – or, let me – did you update that  
9 balance or the information in that balance since the  
10 close of the test year?

11 **A** [PAYNE] Yes. We had – so, in my testimony, direct  
12 testimony filed, we updated that balance through January  
13 10th, which was the latest information at that time that  
14 we had been provided.

15 **Q** And that was – I'm sorry, go ahead.

16 **A** [PAYNE] So that was the most up-to-date that is  
17 reflected in those exhibits. On March 22, 2018, we got  
18 further information. That is what I spoke to in my  
19 summary. That is not reflected in my surrebuttal  
20 exhibits. We did not have time to review it prior to  
21 filing.

22 **Q** Did you make any – so you made no adjustments with  
23 respect to that updated –

24 **A** [PAYNE] For the information between January 10th and  
25 March 22th – which, really, the information that was

1 provided March 22nd was through March 8th – we did not  
2 reflect those updates in my exhibits.

3 **Q** Do you have any idea, had you done so, what the  
4 adjustment would be?

5 **A** [PAYNE] Yes. As I spoke to in my summary, the  
6 adjustment for the consolidated amount would've been  
7 \$222,758. The amount that was in my testimony exhibits  
8 was \$191,034, so the difference between those two  
9 numbers.

10 **Q** I don't know whether you're responsible for review and  
11 audit of the rate-case expenses – is that your  
12 responsibility?

13 **A** [PAYNE] Yes, sir.

14 **Q** Did you do the same update, or how current was your  
15 review of the company's rate-case expenses?

16 **A** [PAYNE] For current rate-case expenses, my exhibits and  
17 my direct testimony and my surrebuttal testimony, the  
18 amount reflected there is as of, I believe it was  
19 February – [indicating]. As of February 1st, the  
20 balance for current rate-case expenses was \$47,546. As  
21 of the information provided on March 22nd, the balance  
22 was \$92,384.

23 **Q** You accept that figure as what you propose – or what ORS  
24 proposes in this case?

25 **A** [PAYNE] At this time, we do expect there to be further

1 expenses incurred, through the date of this hearing.

2 **Q** And you would allow those, pursuant to your normal  
3 policy?

4 **A** [PAYNE] We will review them and, as long as they are  
5 applicable for ratemaking purposes, yes.

6 **COMMISSIONER BOCKMAN:** Thank you, Mr. Payne.  
7 Thank you, Mr. Chairman. I appreciate your  
8 indulgence.

9 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
10 Bockman.

11 Commissioner Hamilton.

12 **COMMISSIONER HAMILTON:** Thank you, Mr.  
13 Chairman.

14 **EXAMINATION**

15 **BY COMMISSIONER HAMILTON:**

16 **Q** Mr. Schellinger, in your summary you mentioned the 13  
17 bills in one annual span? Was that properly corrected?

18 **A** [SCHELLINGER] Those 13 bills were properly billed. And  
19 while the – or, that's – those specific customers may  
20 have received 13 bills in that period of time, they  
21 weren't overbilled for service that had been provided.  
22 As I believe Mr. Cartin spoke of yesterday, those  
23 customers had such a large gap built in between their  
24 service date and their bill date, under the old purchase  
25 pass-through system, and by slowly moving up that bill-



1 date-to-service-date, some customers received 13 bills  
2 through the test year.

3 **Q** But now they're down to 12 bills, annually?

4 **A** [SCHELLINGER] My understanding is, everybody has a much  
5 closer alignment between their service period and their  
6 billing period, and they should not receive 13 bills,  
7 going forward.

8 **COMMISSIONER HAMILTON:** All right. Thank you,  
9 sir, very much.

10 Thank you, Mr. Chairman.

11 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
12 Hamilton.

13 Commissioner Howard.

14 **EXAMINATION**

15 **BY COMMISSIONER HOWARD:**

16 **Q** Mr. Payne, I think we discussed this briefly, but I'd  
17 like to have ORS's take on it. The sludge hauling, it  
18 seems like the test year, the sludge-hauling amounts  
19 were much larger than the other years. Can you explain  
20 that?

21 **A** [PAYNE] For any audit that ORS does, we begin by doing  
22 an analytical review of expenses. So prior to the  
23 Application even being filed, the company was nice  
24 enough to provide us the books that would support their  
25 eventual Application. We did an analytic review and,

1 through that, we found that the sludge-hauling expense  
2 did have a considerable increase. From the 12 months  
3 ended August 31, 2016, to the test year, the increase  
4 was \$150,555, which represented a 76 percent increase.  
5 Before really even understanding any idea why, that kind  
6 of got our attention, so we asked for a response from  
7 the company as to why there was such a large increase in  
8 sludge-hauling expense. Their response was that it was  
9 due to excess or extra expense, higher-than-normal  
10 expense, at the Friarsgate and Watergate plants. As we  
11 did further in-depth review of their books, we found –  
12 as the chart on my surrebuttal shows – that, if you  
13 compare over three years, there was a large expense.

14 ORS's position is that these expenses are not  
15 normal and that we have not been provided support that  
16 these will be the going-forward expenses. Therefore, we  
17 proposed the adjustment to more or less normalize  
18 expenses, for setting rates.

19 **Q** Anything else?

20 **A** [PAYNE] Not at this time.

21 **Q** Dr. Carlisle, is it any challenges provided when you're  
22 doing your proxy groups – and yours and Mr. D'Ascendis'  
23 are almost the same, except I think he had two more than  
24 you did. When you're during a proxy group but you're  
25 dealing with a utility that's not traded publicly, does

1       that bring any challenges or make any difference,  
2       because, apparently, you don't have to worry about being  
3       fickle investors, but how do you treat that or is it any  
4       difference?

5     **A**    [CARLISLE] As I understand the standard, it is to see  
6       what investors would invest in a similarly situated  
7       company with the same general services and the same type  
8       of service. And the data is available for publicly  
9       traded groups, and an investor confronted with that kind  
10      of choice would make certain selections and there would  
11      be a return.

12           So, our groups are virtually – in fact, I think  
13      they are identical. During this case, a merger was  
14      announced, which dropped the number of companies by one.  
15      I included a new company that was being traded – Global  
16      Water Resources, located in Arizona – in my initial  
17      direct testimony, and I think he included it in his  
18      rebuttal. He may have picked it up in his original  
19      testimony, but I'm not certain. So we have pretty much  
20      the same, and the question is, if you could take all  
21      these companies and you could squeeze them together into  
22      some sort of abstract, but comparable, company, wWhat  
23      would they get? And that's what we strive to do with  
24      the selection of proxy groups.

25           There are not many publicly traded water companies,

1 so there's not much choice these days, and there really  
2 hasn't been for quite some time. But they come and go.  
3 One was taken private and then a few years ago they  
4 decided they were going to be publicly traded again. So  
5 they do come and go, but it's an easy choice, really.

6 **Q** Okay. Thank you.

7 **A** [CARLISLE] Yes, sir.

8 **COMMISSIONER HOWARD:** Thank you, Mr. Chairman.

9 **CHAIRMAN WHITFIELD:** Thank you, Commissioner  
10 Howard.

11 **EXAMINATION**

12 **BY CHAIRMAN WHITFIELD:**

13 **Q** On that note, Dr. Carlisle, I want to kind of follow up  
14 with – Commissioner Fleming had a question and now  
15 Commissioner Howard for you. One quick question to you:  
16 Would an investor consider an investment in a stock with  
17 a fairly constant annual return to have the same risk as  
18 an investment with a stock with a higher annual  
19 variability?

20 **A** [CARLISLE] No, he would not. The reliability of the  
21 constant return is an indication of safety, a reduction  
22 of risk in exchange for which the investor would expect  
23 a lower return, and so if the risk profile of the  
24 investor were toward safer returns, the investor would  
25 be attracted to it. However, if the investor were

1 looking to make more money faster, then the investor  
2 might be repelled, but would – in an ideal situation –  
3 acknowledge that there would be higher risk and a chance  
4 of not realizing the return for which he or she had  
5 hoped.

6 **CHAIRMAN WHITFIELD:** Thank you. Thank you.

7 I see Commissioner Elam's light on, so you're  
8 going to get another – he's going to get another  
9 swipe at you.

10 **EXAMINATION**

11 **BY COMMISSIONER ELAM:**

12 **Q** Just kind of a summing up at the end, here, and a  
13 question for the entire panel, that, if the Commission  
14 were to accept the ORS recommendations – accounting  
15 adjustments, rate of return, everything – for the  
16 information that you know up to now, can you tell us  
17 what the new revenue requirement for CWS would be? The  
18 increase in revenue requirement?

19 **A** [SCHELLINGER] I have an estimate at Mr. Carlisle's  
20 recommended point range, but this estimate does not take  
21 into account updated purchased-water amortization or the  
22 updated rate-case expenses, so I want to caveat that,  
23 and then, as well, mention that this is an estimate.

24 **Q** Right.

25 **A** [SCHELLINGER] So –

1 Q And that's what I said, up to now. I recognize you have  
2 a couple of –

3 A [SCHELLINGER] With all that taken into account, the  
4 additional revenue required by the company would be  
5 \$2,044,933.

6 Q And based on that, can you tell me what an estimate of  
7 the new rates for a water and wastewater customer would  
8 be?

9 A [SCHELLINGER] Sure. Once again, as an estimate. And  
10 I'm actually going to have to give you five different  
11 numbers here, because we've got residential who's on a  
12 purchased system, not on a purchased system, and then  
13 split between the different service territories.  
14 So, in Service Territory 1, for a purchased-water  
15 residential customer, they'd have a usage charge per  
16 thousand gallons of \$7.09 and a base facility charge of  
17 \$15.10. For a non-purchased-water customer, a usage  
18 charge of \$5.87 and the base facility charge of \$15.10.

19 And I would like to mention I attempted to use the  
20 same rate-design philosophy and mechanisms that the  
21 company proposed in their Application in kind of putting  
22 these rates together.

23 Q Okay. And so I guess, if we were to want to know about  
24 an average customer of 6000 gallons, we would just take  
25 the \$15.10 and multiply this \$7.09 –



1 A [SCHELLINGER] No, sir. It would be the \$7.09 times six,  
2 plus the \$15.10.

3 Q Okay.

4 A [SCHELLINGER] Yeah. And if you'd like, I've got Service  
5 Territory 2, as well as the sewer, as well.

6 Q Please continue.

7 A [SCHELLINGER] For Service Territory 2 for a purchased-  
8 water customer, the usage charge would be \$11.24 per  
9 thousand gallons, with a base facility charge of \$27.67  
10 – sorry – \$27.68. For a non-purchased-water customer,  
11 the usage charge per thousand gallons would be \$9.94,  
12 with a base facility charge of \$27.68.

13 Q Okay. For sewer –

14 A [SCHELLINGER] Yes, sir.

15 Q – is it all flat rate, both service areas?

16 A [SCHELLINGER] The proposal by the company is to  
17 consolidate the purchased-sewer and the regular – the  
18 treated-sewer customers, so it would be all flat rate  
19 for a residential customer, and that rate would be  
20 \$62.22.

21 Q Per month, for both service areas?

22 A [SCHELLINGER] Yes, sir.

23 Q Okay. Thank you.

24 A [SCHELLINGER] You're welcome.

25 CHAIRMAN WHITFIELD: Thank you, Commissioner

1 Elam. Does that –

2 **COMMISSIONER ELAM:** That's it.

3 **CHAIRMAN WHITFIELD:** Okay. Thank you for  
4 asking that. I think we all needed to know that.  
5 Any questions from any other Commissioners?

6 [No response]

7 If not, is there any redirect, Ms. Belser?

8 **MS. BELSER:** No redirect.

9 **CHAIRMAN WHITFIELD:** Okay. No redirect.

10 Thank you.

11 Yes, sir, Mr. Terreni.

12 **MR. TERRENI:** I just have one question I want  
13 to clear up.

14 **CROSS EXAMINATION**

15 **BY MR. TERRENI:**

16 **Q** On the question of the legal invoices, you mentioned  
17 there were several law firms –

18 **CHAIRMAN WHITFIELD:** Mr. Terreni, there was no  
19 redirect.

20 **MR. TERRENI:** I mean, it's cross. I'm sorry.  
21 Can I not follow up on the Commissioners – on the  
22 answers to the Commissioner's questions?

23 **CHAIRMAN WHITFIELD:** If it's related to a  
24 Commissioner question, yes, sir. I'm sorry. Go  
25 ahead, if it's related to a Commissioner question.

1                   **MR. TERRENI:** Yes, sir.

2           **BY MR. TERRENI:**

3           **Q**     You were asked about legal expenses and which law firms  
4                   incurred legal expenses. I heard my law firm mentioned  
5                   and I heard Mr. Elliott's law firm mentioned. I just  
6                   wanted to ask, would you describe those expenses as  
7                   large? Or were they a significant portion of the amount  
8                   asked for? And I ask this because, earlier in this  
9                   hearing, I think I represented that I wasn't one of the  
10                  lawyers involved.

11           **A**     [SCHELLINGER] My quick review of the response provided  
12                   by the company, I would say that the expenses  
13                   represented by Mr. Terreni and Mr. Elliott were very  
14                   minimal in regards to the total litigation expenses.

15           **Q**     And in preparing – in representing a company when  
16                   preparing for this case, would it be reasonable or  
17                   expected for Mr. Elliott and I maybe to be apprised or  
18                   keep apprised of litigation that involves the company?

19           **A**     [SCHELLINGER] I think that would be a reasonable  
20                   expectation.

21                   **MR. TERRENI:** Thank you very much.

22                   **CHAIRMAN WHITFIELD:** Thank you, Mr. Terreni.

23                   Ms. Belser, I'm going to come back to you.

24                   Any follow-up with that?

25                   **MS. BELSER:** No. No, Mr. Chairman.

1                   **CHAIRMAN WHITFIELD:** Okay. If not, thank you  
2                   for your testimony, and you may step down.

3                   [WHEREUPON, the witnesses stood aside.]

4                   At this time, I'm going to ask if there is  
5                   anything else – any other matters from any of the  
6                   parties. I know a couple of you have expressed  
7                   interest in closing arguments, closing statements.  
8                   So before I take those, are there any other matters  
9                   that need to come before the Commission at this  
10                  time?

11                  **MR. TERRENI:** Just a couple.

12                  **CHAIRMAN WHITFIELD:** Yes, sir, Mr. Terreni.

13                  **MR. TERRENI:** First of all, I wanted to  
14                  memorialize what Mr. Schellinger already told Mr.  
15                  Bockman, that there will be updated rate-case  
16                  expenses, as is customary, in this case. And I  
17                  believe that was in his testimony, but I want to be  
18                  clear about that on the record.

19                  Secondly, we would like or we would request a  
20                  brief recess so that each party can review the  
21                  evidence that has been given and prepare closings  
22                  that may be more helpful to the Commission.

23                  **CHAIRMAN WHITFIELD:** Mr. Terreni, you're in  
24                  luck. We do need to take a little break.

25                  **MR. TERRENI:** Okay.

1                   **CHAIRMAN WHITFIELD:** So we're going to take a  
2                   brief 10-minute break, and we'll come back in in  
3                   just a minute.

4                   **MR. TERRENI:** And I have one more –

5                   **CHAIRMAN WHITFIELD:** Yes, sir.

6                   **MR. TERRENI:** – matter that might be better to  
7                   clear up now. The company would like to waive its  
8                   right to present an opening – the first closing  
9                   argument, and reserve it's time for reply.

10                  **CHAIRMAN WHITFIELD:** That's fine, Mr. Terreni.  
11                  I don't see any disagreement from anyone, and  
12                  that'll be fine.

13                  We're going to take about 10 minutes, and when  
14                  we return, not only are we going to have closing  
15                  statements but we're going to have our attorney  
16                  read the list of exhibits and kind of go over  
17                  everything, and we'll set dates for proposed orders  
18                  and that sort of thing, when we return. See you in  
19                  about 10 minutes.

20                  [WHEREUPON, a recess was taken from 11:25  
21                  to 11:40 a.m.]

22                  **CHAIRMAN WHITFIELD:** Okay. Well, I'll call  
23                  this hearing back to order.

24                  Was there any other business, anything else  
25                  from the parties before we go to closing

1 statements?

2 [No response]

3 Well, if not, I don't have a preferred order  
4 on closing statement, so I'll just take volunteers.

5 Ms. Valtorta? Come forward.

6 **MS. VALTORTA:** Sure.

7 **CHAIRMAN WHITFIELD:** I think you had asked for  
8 a closing statement time, so come forward.

9 **MS. VALTORTA:** Yes, sir. I would first like  
10 to thank the Commission for your attention to this  
11 matter. We really appreciate your paying attention  
12 to these matters that are important to us.

13 The Forty Love Homeowners' Association, in  
14 looking at a possible \$17-per-month increase in  
15 sewage collection services, have decided to use the  
16 opportunity to negotiate maintenance and possibly  
17 upgrade of our sewage collection system, which is a  
18 LETTS system, which we believe is below industry  
19 standards, and to use the rate-case structure to  
20 negotiate a possible solution. And, indeed, we  
21 came to an agreement with the water company, that  
22 they would try to put language in the order that  
23 went something like this: Carolina Water Service  
24 and the Forty Love Point Homeowners' Association  
25 agree to cooperatively investigate the source and



1 extent of sewerage problems experienced by  
2 customers in the Forty Love Point area and  
3 formulate a plan to address them. The company is  
4 retaining an engineering firm to perform an  
5 assessment of the Forty Love Point system, and CWS  
6 will continue to work with DHEC and Richland County  
7 to determine whether issues with a LETTS system may  
8 be affecting Forty Love Point. And then CWS and  
9 the homeowners association will report their  
10 findings to the Public Service Commission and the  
11 ORS in six months.

12 Now, this is great. We really appreciate this  
13 and, in the past, during past rate cases, we have  
14 successfully negotiated for a pass-through system  
15 for our water, which we're very happy about. And  
16 it's made our lives much better. We can actually  
17 drink the water. And, you know, that's – it's just  
18 marvelous. My point in all this is that we really  
19 appreciate the rate-case structure and that we are  
20 allowed to intervene and all that, but I think  
21 there should be another mechanism by which we can  
22 come to some kind of an agreement with the water  
23 company, possibly through the ORS, you know, during  
24 times when we do not have a rate case coming up.

25 We see a lot of activity when there's a rate

1 case on the horizon. We can actually get things  
2 done. We can actually come to an agreement at that  
3 time. But when there isn't a rate case, people  
4 seem to be complaining to the wind, and nothing  
5 happens. I think the difference is that this is a  
6 formal procedure and that the result is a written  
7 agreement, an agreement that is done in writing and  
8 that everyone can refer to. We have a six-month  
9 timeline. It's all beautiful.

10 What I would suggest is possibly there should  
11 be another mechanism by which we could do this,  
12 possibly through the ORS, that results in some kind  
13 of written agreement where we don't always have to  
14 rely on the rate-case structure. I think that  
15 might be less costly to everyone, and if something  
16 is happening in an off-year, I mean, we have no  
17 guarantee that – and, you know, you don't want to  
18 encourage them to ask for rate increases so often.  
19 I mean, there should be another way to handle our  
20 problems, that results in a written contract.

21 And, of course, we're always arguing we need  
22 the consumer advocate, but that's out of your  
23 hands. I think a consumer advocate would help.  
24 Neighborhoods don't always have an attorney who is  
25 going to represent them. But, with that, I would

1           like to say we are grateful. We think this is a  
2           big increase for both water and sewer, and, you  
3           know, we appreciate the ORS trying to negotiate  
4           those cost to be lower. Thank you.

5           **CHAIRMAN WHITFIELD:** Thank you, Ms. Valtorta.  
6           I'm going to go out on a limb here and say that's  
7           one of the more positive things we've heard, even  
8           though you are using the rate-case structure for  
9           that. And, yes, you shouldn't have to wait till  
10          the next rate case comes around, should you or the  
11          residents in your area have issues or have trouble.  
12          But I certainly appreciate your participation and  
13          your positive approach to this, and certainly  
14          you've participated before, and you're well aware,  
15          as an attorney, that you can go to ORS at any time,  
16          and – don't have all the answers, doesn't look like  
17          you have all the answers, but it's certainly a  
18          positive approach that you've laid out here.

19          **MS. VALTORTA:** Thank you.

20          **CHAIRMAN WHITFIELD:** And thank you.

21          Next, who wants to make a closing? Mr.  
22          Knowlton, yes, sir, come forward.

23          **MR. KNOWLTON:** I, too, would like to thank the  
24          members of the Commission and all the parties  
25          represented here. I feel quite handicapped. I'm

1 not a lawyer. My four-year degree has nothing to  
2 do with any of this, although I did attend a  
3 technical college so I do understand some plumbing  
4 and do some plumbing.

5 But all that being said, I'm not here,  
6 specifically, for myself. I've lived frugally all  
7 my life and I'm quite capable of the paying the  
8 bill, even if it increases 30 percent. But we need  
9 to consider that this is wrong, that it's just  
10 morally wrong. To have a 30 percent rate increase  
11 after three years, what is wrong? And hiring a  
12 publicity officer accentuates the fact that  
13 something is wrong and what we're trying to fix is  
14 not the rates.

15 So I just rest my case there, and I thank the  
16 Commission for their work.

17 **CHAIRMAN WHITFIELD:** Thank you, Mr. Knowlton,  
18 for your participation, and thank you for being  
19 here.

20 Mr. Nelson.

21 **MR. NELSON:** Thank you, Mr. Chairman.

22 It's been a long two days, but I want to try  
23 and at least clarify what I think are the main  
24 points of contention that we have left in this  
25 case, between the Office of Regulatory Staff and

1 the company.

2 The first issue that we've heard a lot of  
3 discussion about is the sludge-disposal costs. To  
4 be clear, ORS is not arguing about the dollars  
5 spent during the test year; we're just saying that  
6 those dollars spent during the test year should be  
7 normalized. The increase – the company had a  
8 dramatic increase in the cost of sludge-hauling  
9 expenses during the test year. As this increase  
10 may well be an aberration, ORS used standard  
11 accounting practice and normalized these costs by  
12 taking the last three years, including the number  
13 in the test year, and averaged them to produce an  
14 allowable cost, as far as we were concerned. This  
15 issue was addressed in both the direct and  
16 surrebuttal testimonies of both Mr. Schellinger and  
17 Mr. Payne. And, actually, in considering some of  
18 the questions and answers that went back and forth,  
19 I think that may even be a generous amount, because  
20 we heard from Mr. Gilroy that the company's  
21 planning an interconnect with the City of Columbia.  
22 Once that interconnect is made, as he testified,  
23 there is a zero sludge-hauling cost. So I think  
24 the three-year normalization is a very reasonable  
25 amount.

1                   Secondly, ORS has removed certain expenses  
2                   for legal fees relating to the company defending  
3                   itself from a federal court action that has been  
4                   brought against it by the Riverkeeper for  
5                   discharges into the Saluda River, and for legal  
6                   actions surrounding the condemnation of CWS's I-20  
7                   plant by the Town of Lexington. We don't believe  
8                   that the ratepayers should have to pay for legal  
9                   costs incurred by the company in defending itself  
10                  from cases arising from illegal discharges into the  
11                  Saluda River. And as to the condemnation case,  
12                  that matter is yet to be tried. And should the  
13                  company prevail in that matter, it very well could  
14                  recoup those legal costs from the Town of  
15                  Lexington. So to allow them what may be,  
16                  potentially, a double recovery from getting them  
17                  both in this case, through the ratepayers and then  
18                  again from the Town of Lexington, potentially,  
19                  doesn't seem right.

20                 Third, and along kind of the same vein, ORS  
21                 has made an adjustment to remove invoices totaling  
22                 \$306,000 from the company's gross plant-in-service  
23                 for funds paid to W.K. Dixon. Again, these  
24                 services were provided to CWS to comply with the  
25                 DHEC order requiring oversight by a registered



1 South Carolina professional engineer due to CWS's  
2 apparent inability to operate the plant properly,  
3 itself. Ratepayers are already paying, through  
4 rates, for CWS to manage this system, and they  
5 shouldn't be forced to do so again by paying W.K.  
6 Dixon to do the same work.

7 Fourth is return on equity, and I could  
8 probably spend three days trying to discuss with  
9 you the return on equity, none of which I would  
10 really understand too well. What I would need to  
11 say is that I fully stand by Dr. Carlisle's  
12 recommendation to the Commission, which I think is  
13 a very well-reasoned, very in-depth analysis that  
14 he's performed, in recommending a 9.08 percent ROE  
15 to the Commission.

16 Fifth is the legal expenses for the I-20, too,  
17 and I think we've kind of gone over the various  
18 aspects of it, but I think one thing is the amount  
19 of money involved here, is what we're looking at.  
20 And it's close to a million dollars in legal costs,  
21 and those legal costs, as Commissioner Elam has  
22 pointed out, stretches over a 66-year period. If I  
23 was a customer of CWS, I wouldn't be able to – it  
24 wouldn't be paying off this amount till I was 124  
25 years old, and it doesn't seem right that these

1 high legal costs should be imposed on the  
2 ratepayers, especially over such a long term of  
3 years.

4 Probably the most confusing and the last point  
5 I've got is the issue regarding the federal income  
6 tax adjustment. And to be clear, the company and  
7 ORS have agreed on many of the issues related to  
8 the federal income tax. The one issue that we've  
9 got left is the amount that has been collected by  
10 the company during the period from January 1st,  
11 when a new 21 percent federal rate went into  
12 effect, changing from 35 percent, to May 10th,  
13 which we anticipate to be the day, I believe, when  
14 the Commission's order is due in this case. ORS  
15 believes the company should not be allowed to keep  
16 the windfall they will have in revenue, resulting  
17 from the change in the federal tax rate, by  
18 retaining amounts that are collected through rates  
19 which were set on a 35 percent federal liability,  
20 when it will only be paying 21 percent. In the  
21 same manner as the Commission and ORS make  
22 adjustments for updated known and measurable  
23 expenses, such as we did with the purchased water  
24 in this case, as you've just heard, there should  
25 also be a corresponding reduction when the company

1 has a known and measurable decrease in expenses.

2 The company has collected for federal taxes  
3 that it will never pay, and the tax expense item  
4 is, essentially, a pass-through of taxes, collected  
5 from ratepayers and remitted to the government.  
6 This is not an earnings issue. This is a cash-flow  
7 issue. And the cash flowing here should not flow  
8 into the pockets of the shareholders of CWS, but  
9 should go back to the ratepayers who it was taken  
10 from.

11 The change in the federal tax rate was  
12 unanticipated and is non-recurring, and under  
13 *Porter versus South Carolina Public Service*  
14 *Commission* 493 SC2d 92, a 1997 case, it could  
15 therefore be considered extraordinary and its  
16 adjustment not retroactive ratemaking. I believe  
17 that ORS was generous in recommending the company  
18 be permitted three years to flow this money back to  
19 ratepayers and not be forced to pay it all  
20 immediately.

21 I believe that summarizes what I think, at  
22 least, are the most important issues that are still  
23 outstanding in this case, and I thank you very much  
24 for your time and attention.

25 **CHAIRMAN WHITFIELD:** Thank you, Mr. Nelson,

1 for your participation and for a very thorough yet  
2 succinct recap of ORS's position, and thank you for  
3 your statement.

4 Mr. Terreni.

5 [Discussion off the record]

6 [Reference: Presentation Slide 1]

7 **MR. TERRENI:** First of all, I, too, would like  
8 to thank the Commission and the parties to this  
9 case for –

10 **CHAIRMAN WHITFIELD:** Mr. Terreni, I don't  
11 believe you're on.

12 **MR. TERRENI:** Well, that's awkward  
13 [indicating].

14 I, too, would like to thank the Commission and  
15 the parties to this case for their cooperation,  
16 consideration, and attention through what can be  
17 some very difficult issues and some very  
18 controversial issues, ones that can arouse passion,  
19 as we all know.

20 Mr. Nelson and I do agree on the issues that  
21 are in contention in this case, between us and the  
22 ORS. Mr. Hunter summarized them –

23 [Reference: Presentation Slide 2]

24 – in his testimony. This chart came from his  
25 testimony. It provides the issues, their financial

1 impact.

2 [Reference: Presentation Slide 3]

3 And I put them out today, and these are the  
4 issues that I'd like to talk about with you for a  
5 few minutes today: the Friarsgate engineering  
6 expenses, the remediation costs of Friarsgate,  
7 sludge-hauling expenses, the I-20 litigation  
8 expenses, the Tax Cuts and Jobs Act, and the Forty  
9 Love Point LETTS systems and the customer service  
10 issues.

11 [Reference: Presentation Slide 4]

12 With regard to the Friarsgate engineering  
13 expenses, the testimony you heard today from  
14 Michael Cartin, who went through the consent order  
15 line by line with this Commission, in response to  
16 Mr. Elliott's redirect, was it was DHEC that  
17 required a professional engineer to be on-site, it  
18 was DHEC that required the services that were  
19 rendered by W.K. Dixon at the Friarsgate plant, it  
20 was DHEC that required an engineer to write the  
21 manual, it was DHEC that required an engineer to  
22 handle all the permitting, it was DHEC that  
23 required somebody to be on-site and virtually run  
24 the plant. These were not DHEC's fines. DHEC's  
25 fines were in a separate section of the consent

1 order and they are not being sought in this case.  
2 But what Carolina Water Service is seeking to  
3 recover here is the cost of complying with that  
4 consent order and running that plant as required by  
5 regulatory authorities, and those are costs that  
6 this Commission has allowed in previous cases and  
7 should allow in this case.

8 As for the matter of the invoice offering  
9 little explanation, I will concede that W.K. Dixon  
10 invoice gives a very succinct explanation. It says  
11 "CO," consent order. We went through that consent  
12 order at length.

13 [Reference: Presentation Slide 5]

14 As for the remediation costs – and we made a  
15 mistake here; we called them EQ liner costs, and,  
16 really, it's true. We don't have a new EQ liner in  
17 service; we've never claimed it and we're not  
18 asking for the cost of it. But what this company  
19 is asking for is the cost of removing the old EQ  
20 liner and conducting the soil remediation on the  
21 site below the old EQ liner. It is uncontradicted  
22 that that was required. It was required by DHEC,  
23 it had to be done, and the customers and South  
24 Carolinians benefited from the environmental  
25 benefits of that soil remediation and that EQ liner

1 removal.

2 When a new EQ liner goes into service, we'll  
3 come back and ask for recovery for it in the next  
4 rate case, if it's appropriate. But they're not  
5 included there, and the costs that are included  
6 should be awarded by this Commission.

7 [Reference: Presentation Slide 6]

8 As for the sludge-hauling expenses, Mr. Gilroy  
9 testified in some detail as to what DHEC requires  
10 of Carolina Water Service with regard to sludge  
11 hauling. Remember the issues of "wasting"? Well,  
12 wasting, as Mr. Gilroy said, means removal. And  
13 DHEC is requiring Carolina Water Service – and this  
14 isn't a fine; this is just DHEC saying, "This is  
15 what needs to happen at the Friarsgate plant." – it  
16 is requiring it to remove much more sludge than it  
17 did in the previous years of the three-year period  
18 that the ORS has used. The record clearly reflects  
19 that this is not going to change. That sludge will  
20 still have to come out in 2018 and going forward  
21 until and if that plant is connected to – is  
22 interconnected with the City of Columbia.

23 So these costs, while reflecting an  
24 extraordinary increase, are the new normal.  
25 Nothing has changed in that consent order. We're



1 not going back to those previous year one and year  
2 two expenses. And, therefore, the normalization,  
3 as they put it, is inappropriate. The normal costs  
4 are the ones reflected in the test year.

5 [Reference: Presentation Slide 7]

6 The I-20 litigation expenses: I know. A  
7 million dollars. Recovered over 65-1/2 years.  
8 Sixty-five and a half years, we've heard that  
9 amortization period before. That's the ORS's  
10 amortization period. I guarantee you my client  
11 would prefer to recover those costs in a shorter  
12 period of time. But 65 years is a way of  
13 mitigating the impact of that recovery on the  
14 ratepayer. And what Mr. Cartin testified to in  
15 this case – and it's uncontroverted, as well – is  
16 Riverkeeper brought this lawsuit seeking an  
17 interconnection with the Town of Lexington. Now  
18 Mr. Nelson said, "Yeah, but also because there were  
19 effluent violations in the Congaree River." Well,  
20 why were there effluent violations in the Congaree  
21 River or how were we going to fix those? With an  
22 interconnection. And, you know, while those  
23 violations were going on, DHEC had permitted this  
24 plant at least on a provisional basis. In other  
25 words, either they did not – I'm not a DHEC lawyer,

1 but the testimony was they either denied the permit  
2 or they – or, no, they didn't renew the permit. I  
3 remember that, now. I think it was Mr. Gilroy that  
4 explained this. They didn't renew the permit, but  
5 they didn't deny it, because they knew the company  
6 didn't have any options. Then the *Riverkeeper* suit  
7 comes along, and it goes back to before 2015. The  
8 company's being sued to interconnect with a town  
9 that refuses an interconnection. No one disputes  
10 that. So to blame CWS for not doing what is not  
11 possible is really not appropriate. What was CWS  
12 supposed to do? They had to defend themselves. So  
13 what changed? In 2016, what brought about the  
14 interconnection was DHEC denied the permit, and in  
15 DHEC's denial of a permit – you remember Mr. Gilroy  
16 and Mr. Cartin testifying to this – in DHEC's  
17 denial of the permit, they said, "CWS, Lexington –  
18 Lexington, the 208 provider that is refusing to  
19 interconnect with the company – y'all need to get  
20 together and make this happen." Did CWS stand in  
21 the way? No. It agreed to the condemnation and  
22 agreed, "Okay, we disagree about the value of this.  
23 We'll argue about it later."

24 So these legal costs, they are all about this  
25 I-20 system. No argument about that. That *CRK*

lawsuit – or, *River Runner* lawsuit's not involved in this, we're not asking for those fees. These are all about this system. And I haven't heard anyone come to you and explain how Carolina Water Service was supposed to not defend litigation that was asking it to do the impossible.

[Reference: Presentation Slide 8]

Now, the Tax Cuts and Jobs Act: Mr. Cartin's not a lawyer. But I am. I graduated from this State's flagship Law School University. Paid my tuition of \$1700 a semester.

**COMMISSIONER BOCKMAN:** Still got some debt outstanding?

[Laughter]

**MR. TERRENI:** Graduated with minimal debt, and have enjoyed practicing law in this State for the next 30 years. And the case that we withdrew from the Commission, but that I can offer to you, is *South Carolina Electric & Gas versus South Carolina Public Service Commission*, and it was a case in which this Commission saw that SCE&G received a windfall, if you like. Their purchased-power costs – they call them power-exchange costs – were unexpectedly low, so they spent less than had been anticipated. And, at the time, I guess that stuff

1 was built into rate base – Mr. Bockman would know  
2 better – or was built into the rate cases. And,  
3 anyway, they have this unexpected gift of money.  
4 And the Commission said, “You’ve got to give it  
5 back.” And the company said, “No. Rates –” and  
6 the Supreme Court, more importantly, said, “Rates  
7 here are made prospectively. We don’t do  
8 retroactive ratemaking.” Just because something  
9 happened that you didn’t think was going to happen,  
10 it’s inappropriate to go in and pluck out and say,  
11 “Give that \$7 million back,” or 27, or whatever it  
12 was. If you’ve got a problem with it, there’s a  
13 statutory remedy. You can – a party, such as ORS,  
14 can petition the Commission to bring the company in  
15 for a rate case and determine whether it’s over-  
16 earning.

17 That’s not what’s happening here, and we know  
18 why, because even according to the ORS’s figures,  
19 the company is not over-earning. It’s got an ROE  
20 of around 4 percent. So that is our point. It’s  
21 inappropriate to cherry-pick specific changes in  
22 expenses or income. What’s appropriate is to look  
23 at the whole picture, and that’s what everybody has  
24 told you in that administrative docket, as well.  
25 Now, it may be easy to pick on Carolina Water

1 Service, but make no mistake, what you're doing  
2 here is a precedent. I don't think you can treat  
3 us differently than you do Duke Power, and the ORS  
4 is not asking you to. They filed a letter in the  
5 administrative docket asking for the same treatment  
6 for everybody in the State. Now, the impacts on a  
7 power company? We're talking serious money. I  
8 think we're talking serious money with us, mind  
9 you.

10 [Reference: Presentation Slide 9]

11 Mr. Nelson mentioned the *Porter* case. Let's  
12 be clear about what happened in the *Porter* case.  
13 In *Porter versus Public Service Commission*, this  
14 Commission had approved rate-case expenses in a  
15 case. I think it was in a 1993 case. It's not on  
16 this quote here. But they had – yeah, a 1993 case.  
17 The unamortized amount of the rate-case expenses  
18 was \$146,191. These cases have been approved, and  
19 as I understand it, the company came in sooner than  
20 the amortization period ended, and the Commission  
21 allowed the company to continue to recover  
22 previously approved – boldfaced there – but  
23 unrecovered rate-case expenses. That's quite  
24 different, quite different, from saying, "Hey, you  
25 know, we didn't expect you to get a big tax cut, so

1           you've got to give that money back." And with all  
2           respect to Mr. Nelson, our tax liability is not a  
3           pass-through. We're not talking about purchased  
4           water here under the old pass-through rates.  
5           There's no line item that says if tax rates go up,  
6           the company gets to pass it on to the consumer  
7           immediately. We come to you in a rate case and  
8           it's part of our tax obligation. So, with all due  
9           respect to the ORS, that adjustment is retroactive  
10          ratemaking, it's impermissible, and it should not  
11          be approved by this Commission.

12                               [Reference: Presentation Slide 10]

13           I want to say a few words about Forty Love,  
14           because, with all due respect to Ms. Valtorta, I  
15           don't think we got enough credit. What the  
16           testimony showed here was that two customers, Ms.  
17           King and Ms. – or, yeah, Mr. and Mrs. King, Mr. and  
18           Mrs. Dixon had complaints about sewer backup in  
19           their homes, toilets backing up. And these things  
20           were – Mr. Gilroy testified to all this, and Ms.  
21           Valtorta's own witness, Ms. King. And these  
22           backups were occurring during heavy rains, because  
23           the LETTS system was having a hard time discharging  
24           into the system. Ms. King acknowledged that Mr.  
25           Gilroy was responsive to her complaints, that the

1 company was installing pump tanks after looking  
2 into the individual complaints of these customers,  
3 to help them, that the company is bringing trucks  
4 in to pump out sewage when extraordinary rain  
5 events are involved, that the company installed  
6 monitoring equipment to determine whether they were  
7 meeting resistance from the Richland County system  
8 that was causing the problem, that the company met  
9 with DHEC, the ORS, and Ms. Valtorta, in response  
10 to this. Now, Ms. Valtorta says, "Well, it's only  
11 because there was a rate case." But Ms. King sat  
12 here and told you that Mr. Gilroy had been working  
13 with her since 2014. Mr. Gilroy said he had two  
14 customers bring this up, then Ms. Valtorta said,  
15 "Well, maybe there were more, weren't there," and  
16 he acknowledged, "Yeah, it was four. Four  
17 customers." 2014. Not sure when in 2014. We find  
18 ourselves in 2018 and the company's come around to  
19 saying, "You know what, we will bring an  
20 engineering firm in here to survey this entire  
21 system and resolve it."

22 Now, in fairness, I think the company was  
23 responsive. I think the company acted reasonably  
24 in addressing the individual concerns of four  
25 customers, and when Forty Love intervened in this



1 action and said, "Hey, we think there's more," we  
2 said, "Well, great, we'll look at the system and  
3 we'll report to the Commission in a year." I mean,  
4 we – this is not ignoring people's concerns. And  
5 this notion that there are other customers out  
6 there, as Ms. King testified, that are not  
7 reporting their sewage backups because they're  
8 afraid it might hurt their property values, well, I  
9 would submit Ms. King's husband is an anomaly. I  
10 think you, as triers of fact, will agree with me  
11 that the average person whose toilet is backing up  
12 is not going to say, "Well, I'm not going to call  
13 the water company to get it fixed, because I'm  
14 afraid it might hurt my property values." And I've  
15 got more faith in human nature than to believe  
16 there are multiple customers in Forty Love Point  
17 that are trying to hide a defect in their plumbing  
18 system from prospective purchasers by – instead of  
19 having their toilets fixed. It beggars common  
20 sense.

21 [Reference: Presentation Slide 11]

22 Commissioner Bockman, you mentioned customer  
23 service issues. And there have been customer  
24 service issues in cases going back years with this  
25 company. But I would submit to you that, if we

1 look at this case, we see a responsive company. I  
2 don't know if you've had the opportunity to review  
3 the responsive testimony of Mr. Gilroy that was  
4 filed in this case to the customer complaints. We  
5 cut it short in the oral presentation yesterday, in  
6 the interest of time. But Mr. Gilroy responded –  
7 and I think responded effectively – to customers  
8 who raised concerns at your public hearings. We  
9 don't shy away from these public hearings, we don't  
10 object to any customer testimony. We welcome it,  
11 we deal with it when it comes up, in the best way  
12 we can.”

13 And some specific examples of that were Mr.  
14 Gilroy explained to you that The Landings  
15 Subdivision, where we heard complaints of low water  
16 pressure, has average water pressure of 75 psi,  
17 that he's measured it.

18 Mr. Gilroy explained that Mr. Neely, who  
19 complained of a fire in West Columbia and low  
20 hydrant pressure, that he had investigated that  
21 event and found that there were three fires going  
22 on at the same time that may have put stress on the  
23 system.

24 We've testified to customer meetings we've  
25 held.

1           And with all due respect to Mr. Knowlton, the  
2           idea that we hired an advertising director is  
3           really not accurate. Mr. Yanniti is a  
4           communications director. We have heard from this  
5           Commission that you wanted this company to improve  
6           its communications with its customers, and it is  
7           doing no less than that.

8           In terms of River Hills with the lead issues  
9           that were reported by Mr. Kehler, Mr. Kehler  
10          complained of lead that had showed in water being  
11          purchased from York County, mind you, and the  
12          testimony is the Commission<sub>[sic]</sub> followed every  
13          protocol required by DHEC in informing its  
14          customers and retesting for lead. And I can report  
15          to you today, and parties have been kind enough to  
16          allow me to state this fact in my closing, that we  
17          received the latest lead test results from Mr.  
18          Kehler's home yesterday, and they are negative.

19                 [Reference: Presentation Slide 12]

20          The Dancing Dolphin complaint, I was happy to  
21          hear Mr. Schellinger explain that our customers  
22          weren't overbilled. As Mr. Cartin testified, all  
23          we were trying to do was quit billing them for  
24          November's purchased water in January. And to do  
25          that, they adjusted the billing periods and brought

1           them up to speed.

2           Ms. Coit, of the Washington Heights  
3           Subdivision, testified before you in Columbia, and  
4           I want to point her out, because you'll remember  
5           Ms. Coit. Ms. Coit came before this Commission  
6           before. Ms. Coit and Washington Heights customers  
7           complained that their water quality was not good  
8           and that their water pressure was low. They  
9           complained they could not have hydrant service  
10          because their water pressure was low. Those  
11          complaints have been resolved, and Mr. Gilroy  
12          testified to how they have been resolved. The  
13          company installed an additional hydrotank in that  
14          neighborhood and interconnected the system with the  
15          City of Columbia. And we have previously reported  
16          to this Commission, and it is on the record in  
17          dockets, that, now, the Washington Heights  
18          Subdivision has fire hydrant service.

19          In summary, my point about customer service  
20          is, and I think in many ways it is the most  
21          important part of this rate case, is, you saw Mr.  
22          Cartin here testify. He's the operations guy from  
23          the company. You saw Mr. Gilroy. They're the  
24          people involved in this case. They have shown you  
25          a record of responsiveness, and they've presented

1           you with a plan of proactiveness, when it comes to  
2           surveying their systems with an engineering firm  
3           and obtaining results, and prioritizing capital  
4           improvements.

5           This is not your father's Carolina Water  
6           Service. This company is improving. This company  
7           deserves this Commission's support. And this  
8           company needs revenue to operate and provide  
9           adequate service to its customers. Thank you.

10          **CHAIRMAN WHITFIELD:** Thank you, Mr. Terreni,  
11          for an excellent recap of your company's case, your  
12          client's case.

13          I think that completes all of the closing  
14          arguments at this time. So, at this time, I'm  
15          going to ask our attorney, Mr. Butler, to read our  
16          list of exhibits and do a little housekeeping here.

17          **MR. BUTLER:** Yes, thank you, Mr. Chairman.

18          And by way of housekeeping, I would ask all  
19          parties whose witnesses had additions or  
20          corrections to their testimony, to please file  
21          those with the Commission. In other words,  
22          certainly, we have recorded them in the record, but  
23          we'd like clean copies for our records also, in  
24          other words, new versions of the testimony and  
25          exhibits, with the corrections included. Thank you

1           for that, in advance.

2           In terms of the list of exhibits that we have,  
3           Exhibit No. 1 would be the sign-in sheets from the  
4           Lake Wylie night hearing. Exhibit 2 is Mr.  
5           Kehler's submission in connection with his  
6           testimony at that hearing. Exhibit 3 is Mr. or Ms.  
7           Tansey's submission in connection with his or her  
8           testimony at the Lake Wylie hearing. And, finally,  
9           Exhibit 4 is a submission in connection with the  
10          testimony of Ms. Fick. Exhibit 5A would be the  
11          sign-in sheets for the Greenville night hearing.  
12          Exhibit 5B would be the exhibit of Mr. or Ms.  
13          Hammond; it's a submission in connection with  
14          testimony. Exhibit 6 would be the sign-in sheets  
15          for the Columbia night hearing. Exhibit 7 would be  
16          here for the merits hearing, would be Mr. Hunter's  
17          rebuttal exhibits. Exhibit 8, Mr. D'Ascendis'  
18          prefiled direct exhibits; Exhibit 9 would be his  
19          prefiled rebuttal exhibits. Exhibit 10 will be a  
20          late-filed exhibit from the company on credit card  
21          fees. Commissioner Elam had asked Mr. Cartin about  
22          that. Exhibit 11 would be a late-filed exhibit on  
23          the cost of the liner, from Commissioner Randall.  
24          And Exhibit 12 is a late-filed exhibit and would be  
25          the dollar amount of improvements in the Friarsgate

1 system since the last rate case. Exhibit 13  
2 consists of an exhibit on redirect, Mr. Cartin;  
3 it's an engineering document. Exhibit 14 would be  
4 the direct exhibits of Dr. Carlisle. Exhibit 15  
5 would be the direct exhibits of Mr. Schellinger's  
6 direct testimony, his direct exhibits; Exhibit 16,  
7 Mr. Schellinger's revised surrebuttal testimony  
8 exhibits. Exhibit No. 17 would be Mr. Payne's  
9 direct exhibits, and Exhibit 18 would be the  
10 exhibits for Mr. Payne's revised surrebuttal  
11 testimony.

12 And, Mr. Chairman, that does complete the list  
13 of exhibits as I recorded them. Thank you.

14 **CHAIRMAN WHITFIELD:** Thank you, Mr. Butler.

15 At this time, I'm going to ask that proposed  
16 orders be due on or by the close of business on  
17 Wednesday, April 25th, by the close of business.  
18 And if that seems agreeable to everyone, I'd like  
19 to thank everybody for your participation, and this  
20 hearing is adjourned.

21 [Witness(es) excused.]

22 [WHEREUPON, at 12:20 p.m., the hearing in  
23 the above-entitled matter was adjourned.]

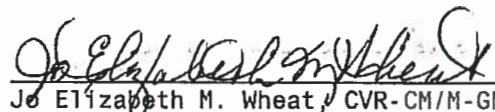


C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, Notary Public in and for the State of South Carolina, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had and testimony adduced in a hearing held in the above-captioned matter before the PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA;

That the witnesses appearing during said hearing were sworn or affirmed to state the truth, the whole truth, and nothing but the truth;

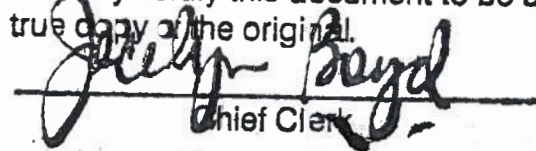
IN WITNESS WHEREOF, I have hereunto set my hand and seal, on this the 22<sup>nd</sup> day of April, 2018.



Jo Elizabeth M. Wheat, CVR-CM/M-GNSC  
Hearings Reporter, PSC/SC

My Commission Expires: January 27, 2021.

I hereby certify this document to be a true copy of the original.



Cheryl Boyd  
Chief Clerk

Date 8/30/18

